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CONTENTS

I. NATIONAL CONFERENCE ON WAR ECONOMY

I

	PAGE
<i>Lowden, Frank O.</i>	Executive Responsibility for War Economy 1
<i>Woodward, Charles E.</i>	The Illinois Civil Administrative Code. 7
<i>Harrington, Emerson C.</i>	The First State Executive Budget 18
<i>Cleveland, Frederick A.</i>	Responsible Executive Leadership. 29
<i>Cutting, R. Fulton</i>	Executive Leadership in a Democracy 42
<i>Butler, Nicholas Murray</i>	Executive Responsibility and a National Budget 46
<i>Hodges, LeRoy</i>	Virginia War Economy and the Budget System 50
<i>Childs, Richard S.</i>	} Discussion of Executive Leadership in a Democracy 53
<i>Burr, William P.</i>	

II

<i>Willoughby, W. F.</i>	The Budget as an Instrument of Political Reform	56
<i>Wright, Omar D.</i>	The Development of the Budget in Illinois	64
<i>Pierson, Arthur N.</i>	The New Jersey Budget Law.	69
<i>Morawetz, Victor</i>	} Discussion of the New Era in Budgets . .	75
<i>Dowling, Robert E.</i>		
<i>Goodnow, Frank J.</i>		

III

<i>Warburg, Paul M.</i>	Capital Issues for State and Municipal Debts and Their Relation to War Financing 79
<i>Craig, Charles L.</i>	The Pay-as-You-Go Policy in New York City 94
<i>Schiff, Mortimer L.</i>	Financing Local Governments 102
<i>Anderson, Arthur M.</i>	The History of the Pay-as-You-Go Policy 106
<i>McBain, Howard Lee</i>	The Need for a Municipal Program 111

IV

<i>Shaw, Albert</i>	}	Discussion of the Government as Employer 114
<i>Love, Thomas B.</i>		
<i>Frayne, Hugh</i>		
<i>Macy, V. Everit</i>		
<i>Lewisohn, Sam A.</i>		

V

<i>Cutting, R. Fulton</i>	Report on the National Conference on War Economy 126
<i>Lindsay, Samuel McCune</i>	List of Delegates Attending the Conference 131

II. WAR LABOR POLICIES AND RECONSTRUCTION

I

	PAGE
<i>Dreier, Mary Elizabeth</i>	Women in Industry 139
<i>Van Kleeck, Mary</i>	Women's Invasion of Industry and Changes in Protective Standards 141
<i>Anderson, Mary</i>	Will Women Retire from Industry with Return of Peace? 147
<i>Goldmark, Pauline</i>	Women in the Railroad Service 151
<i>Hamilton, Alice, M.D.</i>	New Scientific Standards for Protection of Workers 157
<i>Bourat, Marguerite</i>	Women in Industry in France During the War 163
<i>Fraser, Helen</i>	Women in Industry in England During the War 170

II

<i>Woll, Matthew</i>	American Labor Readjustment Proposals . 181
<i>Laski, H. J.</i>	British Labor Reconstruction Proposals and the American Labor Attitude . . . 193
<i>Carter, W. S.</i>	Effect of Federal Control on Railway Labor 198
<i>Caldwell, R. J.</i>	Collective Bargaining—The Democracy of Industry 211
<i>Lewisohn, Sam A.</i>	Humanizing the Management of Industry . 219

III

<i>Macy, V. Everit</i>	Adjustments of Wages and Conditions of Employment 225
<i>Sines, G. H.</i>	Adjustments of Wages and Conditions of Employment Under Governmental Con- trol of Industry 229
<i>Ogburn, William F.</i>	Standard of Living as a Basis for Wage Adjustments 235
<i>Seager, Henry R.</i>	Effect of Present Methods on Future Wage Adjustments 243
<i>Arnold, G. S.</i>	Necessity for Maintenance of Labor Stand- ards During Demobilization 253

IV

<i>Shaw, Albert</i>	The Demobilization of Labor in War In- dustries and in Military Service 261
<i>Kent, William</i>	Getting Men Back on the Land 269
<i>Carey, Sophia</i>	English Agricultural Labor Problems and the Food Problem 280
<i>Love, Thomas B.</i>	The Government's Responsibility for Dis- abled Industrial Workers. 286
<i>Freiberg, Albert H., M.D.</i>	The Restoration of Disabled Soldiers to Industrial Service 291

CONTENTS

v

	PAGE
<i>Haynes, George Edmund</i>	Effect of War Conditions on Negro Labor 299
<i>Smyth, Nathan A.</i>	The U. S. Employment Service in Relation to the Demobilization of Labor 313
<i>Hamilton, W. H.</i>	The Rate of Demobilization and the Labor Market 322
<i>Webster, W. H.</i>	} Discussion of the Demobilization of Labor in War Industries and in Military Service 331
<i>Davis, Augustine</i>	

V

<i>Vanderlip, Frank A.</i>	} Our Industrial Victory 339
<i>Schwab, Charles M.</i>	
<i>Gompers, Samuel</i>	
<i>Taft, William Howard</i>	
<i>Lindsay, Samuel McCune</i>	APPENDIX: Our Industrial Victory 356

III. THE LEAGUE OF NATIONS COVENANT

<i>Morrow, Dwight W.</i>	The Relation of the Covenant to Recent International Cooperation 359
<i>Pittman, Key</i>	The Potentialities and Significance of the League of Nations Covenant 373
<i>Pepper, George Wharton</i>	The Objections to the League of Nations Covenant 386
<i>Kuhn, Arthur K.</i>	Proportional Representation in the League of Nations 399
<i>Pell, Herbert C., Jr.</i>	The League of Nations Covenant 404
<i>Wickersham, George W.</i>	International Labor Standards and Their Possible Enforcement in the United States 408
<i>Snow, Alpheus Henry</i>	The Mandatary System under the Covenant of the League of Nations 426
<i>Elkus, Abram I.</i>	International Labor Legislation and How It Can Be Enforced in the United States 438
<i>Andrews, John B.</i>	International Labor Standards and Legislation 444
<i>Chamberlain, J. P.</i>	The Power of the United States under the Constitution to Enter into Labor Treaties 448
<i>Swift, W. H.</i>	The Enforcement of International Labor Standards Relating to Child Labor . . . 458
<i>Malburn, Wm. P.</i>	Some International Financial Obligations of the United States and One Way of Meeting Them 461
<i>Harrison, Milton W.</i>	The Absorption of Foreign Obligations by Savings Bank and Trustee Investors . . 469
<i>Snow, Alpheus Henry</i>	The New National Processes and Organs Required for Adopting and Effectuating the Covenant 473
<i>Pittman, Key</i>	APPENDIX: Covenant for the League of Nations Showing the Preliminary Reported Draft and the Covenant as Finally Adopted at the Plenary Session 485

IV. RAILROAD LEGISLATION

I

RAILROAD REGULATION: GENERAL PRINCIPLES

	PAGE
<i>Van Metre, T. W.</i>	Solving the Railroad Problem 513
<i>Cummins, Albert B.</i>	The Senate Committee Railroad Bill . . . 518
<i>Merritt, Hon. Schuyler</i>	The House Committee Railroad Bill . . . 540
<i>Meyer, Balthasar H.</i>	The Legislative Program of the Interstate Commerce Commission 548
<i>Dixon, Frank H.</i>	The Relations of Shipper and Carrier. . . 558
<i>Noxon, Frank W.</i>	Objects of Railroad Legislation. 566
<i>Johnson, Emory R.</i>	Scope and Functions of a Federal Transpor- tation Board. 572
<i>Waterman, Richard</i>	The House and Senate Railroad Bills. . . 578
<i>Newcomb, Harry T.</i>	Why Railroad Regulation Has Failed. . . 582
<i>Buel, H.</i>	An Engineer's Point of View. 586
<i>Hiscano, R. A.</i>	The Regulation of Water Carriers 591

II

RAILWAY EARNINGS AND CREDIT

<i>Powell, Thomas Reed</i>	The Railroads and the Investor. 594
<i>Elliott, Howard</i>	The Revenue Needs of the Railroads . . . 599
<i>Thom, Alfred P.</i>	Railroad Legislation 609
<i>Hulme, Thomas W.</i>	Relation of Valuation to Investments. . . 619
<i>Oldham, John E.</i>	Reconstruction of Railroad Credit 624
<i>Warfield, Davies S.</i>	Pending Congressional Legislation as Af- fecting Owners of Railroad Securities. . . 632
<i>Davis, Pierpont V.</i>	The Price of Private Ownership 642
<i>Ransom, William L.</i>	Essentials of a Sound Policy as to the Investor. 647
<i>Thompson, Slason</i>	What Warren S. Stone Thought in 1911. . 658
<i>Baker, Charles Whiting</i>	Railway Credit and the Interstate Com- merce Commission. 662

III

THE RAILROAD LABOR PROBLEMS

<i>Seager, Henry R.</i>	The Human Factor in the Railroad Business 664
<i>Shea, Timothy</i>	Pending Railway Legislation 668
<i>Besler, W. G.</i>	Relations of Railroads and their Employees 677
<i>Doak, W. N.</i>	Wage Adjustments and Labor Controversies 690
<i>Howe, Frederic C.</i>	Labor and the Democratic Control of Rail- roads 696
<i>Lee, Ivy L.</i>	Some Practical Aspects of the Railroad Problem. 703
<i>Osborn, William Church</i>	Discriminations. 707

IV

THE RAILROADS AND THE PUBLIC

	PAGE
<i>Seligman, Edwin R. A.</i> The Importance of the Public Interest . .	710
<i>Sisson, Francis H.</i> The Railroads and the Public	713
<i>Peabody, George Foster</i> The Objections to an Immediate Resumption of Private Operation.	725
<i>Todd, Albert M.</i> Relation of Public Ownership to Democracy and Social Justice	730
<i>Boland, W. P.</i> Government Ownership the only Solution .	760
<i>Tomkins, Calvin</i> Nationalizing the Railroads.	764
<i>Lindsay, Samuel McCune</i> APPENDIX: Report of the Annual Meeting Committee	775

EXECUTIVE RESPONSIBILITY IN ILLINOIS¹

FRANK O. LOWDEN
Governor of Illinois

IT is not necessary to point out to an audience of this kind that government is no longer the simple thing it was half a century ago. We have gradually been taking on new functions of government. Merely to preserve order is not the sole end of government in the minds of the American people today, and as government from year to year has taken on new functions it has created new agencies for the discharge of those functions.

The most popular form which that agency has taken in recent years in the state, and perhaps in a lesser degree in the municipalities, has been the commission. When a commission was once established it was related to absolutely nothing else in the state government; it was theoretically responsible to the governor, but it was not articulated with any other branch of the government. Then, when another new activity was invoked, a new commission was organized, or some other form of activity to take its place. That had been going on year after year until in Illinois, at the beginning of 1917, there were something over 125 absolutely independent agencies of government having nothing to do with one another, not related or co-ordinated in any manner. Though each was theoretically responsible to the governor, of course in practice it was impossible for any governor, no matter what his industry, to exercise genuine supervision over this number of agencies. There was of course much overlapping of functions, there was much needless expense, and perhaps worst of all, there was of necessity great inefficiency.

That is the problem we had to meet when our legislature assembled a year ago last January. Fortunately, a very able commission had been at work making a survey of our state government, and they made an admirable report. Taking that report as a basis, we tried to group these more than 125 agencies into a smaller number, putting those that were related to the same general subject

¹Read at the National Conference on War Economy, June 5, 1918.

under one head. We found that nine departments would logically include all of them. Those departments were: finance, trade and commerce, public welfare, public works, labor, mines and minerals, agriculture, public health, and registration and education.

After we had determined upon the number, the question of the form of the departments arose. It is perfectly obvious that it would have required a revision of all the laws of the state unless we simply conferred upon a department, when we decided upon it, all the powers that were possessed by the various agencies which were merged into the department. That we did.

Next, the question arose whether in framing the administrative code we should define by law the functions of heads of bureaus and divisions within a department. I insisted strongly that all the powers in the department should be concentrated in the department head, who, by rules and regulations, not by statute law, should provide exactly what the duties and powers of the subordinate divisions within that department should be. That view prevailed after much discussion. As a result, the head of a department can be held to a strict responsibility, because every subordinate part of that department is absolutely within his control. He can determine by rule and regulation exactly what the duty of every subordinate within the department shall be. If you do not accept that principle, you may have in form a government of departments, but in fact you will have a number of bureaus and divisions which are not responsive to the head of the department. That is exactly what has happened in Washington. You hear frequently that they have ten departments of government down there. They have hundreds, not ten, and for this reason: When Congress creates the Department of War, it does not stop there, but every time it establishes a new bureau in the War Department, it defines precisely and definitely just what the limits of that bureau are, and just what the bureau chief can or cannot do. The result is that the secretary of war is not the head of that department. He simply presides over any number of absolutely independent bodies within that department. The result is that you cannot have responsible government, and our friends in Congress, who are largely lawyers, when they frame a law, get themselves into the mental attitude of a lawyer who is drawing a will, wanting to provide for every conceivable contingency that will arise in the

course of the next two hundred years. The result is, however wise they may be, that red tape becomes absolutely inevitable, and it is not the fault of the administrator but the fault of the legislator that we have so much red tape in government.

It so happens that during the development of perhaps the last half of the last century, the thought that was in men's minds when they framed constitutions and when they framed laws was, "You must prevent some public official from doing something wrong." They were thinking of that all the while, not of putting the public official in a position where he could affirmatively do something good. The ingenuity of man could never work out any scheme by which you can tie men's hands for evil and leave them free for good. You must give power commensurate with the responsibility which you are going to exact. So this administrative code, which we in Illinois adopted a year ago this last winter, had for its first principle the concentration of all the powers in the department in the head of that department. He is supreme, and therefore if I ask him why this has been done, or why the other thing has not been done, he cannot say that it is because he has no power, for he does have power, and therefore must take responsibility.

The other great principle which we put into the code was this, that it is individuals who do things and not bodies of men. We have acquired the habit, of late years, of creating a commission every time something goes wrong. The fact is, and I submit this to you who have had experience in business, that it is the individual who executes all the while, and not a board or a commission. There is no commission anywhere and there never was, and there is no board anywhere and there never was, that did things affirmatively unless it was absolutely dominated by one man, and the only benefit of the rest of them was in an advisory capacity, and if they did not hamper him, the body was fortunate. Now, if that is true, and it is true, I submit to you who have had experience with committees of all kinds, when it comes to administration, since you must rely upon one man anyway, why not appoint him and omit the others? Then he will not be hampered, at least. At the head of each of these nine departments we put a man and not a board nor a commission. We stood by that principle. It is true that there is wisdom in numbers, as we are told, and it is true that the man at the head of any great work likes the

advice of other men. So, meeting your chairman's suggestion of co-operation on the part of citizens with public officials, we created advisory boards with no power to administer, no power to decide unless they were asked by the actual executive head of the department. As a matter of fact they are frequently called into a meeting, their advice is sought for, they have just as much influence, and yet the decision is actually made by the head of the department. We have used these advisory bodies very freely. In that way many of the most eminent people of our state are serving the public, because there are many men whom you can get to work for nothing a year that you cannot get to work for \$2,500 a year. The result is that we have relations with the best thought and the best effort in the different lines of activity.

The department of finance really became the keystone of the structure, and that, in effect, was a new department of state government with us in Illinois. It was given two sets of powers. First, it was authorized to provide for a uniform system of book-keeping, and a system of reports of all the activities of the state, so that it could supervise all accounts rendered by any department. It had the power to ascertain the legality as well as the correctness of any account. It was required to approve of vouchers that should be paid. This department, therefore, was a very important part of the scheme of government that was created by the administrative code.

The next and perhaps most important duty of all that was devolved upon the head of the department was the duty of the preparation of a budget. He was required not only to assemble the estimates and expenditures of the preceding year, but he was given power to require testimony by the head of a department who might make a request, upon the need of that request; in fact, he was given all the power that could be given him under the constitution, to make a thorough and exhaustive investigation into the needs of every department of government.

He also was empowered to establish summary and controlling accounts. He was permitted to require the several departments at the beginning of a year, or before any part of an appropriation theretofore made could be expended, to make analyses month by month of how the head of that department proposed to apportion the amount of money granted to him among the several forms of activity within that department.

Obviously, the department of finance is from the beginning of any fiscal year discharging the duties of a budget commission. Our fiscal year begins on July 1. Our department of finance, then, on July 1 begins in effect the preparation of the budget for the next biennium, because, by virtue of its power of scrutinizing accounts, and of going into accounts, and because of the requirement that it shall approve of vouchers upon appropriations before they are paid, it must day by day be acquiring the information which is required for the initiation and preparation of the budget for the next biennium. Our legislature meets but once in two years, and therefore we appropriate for two years at a time.

Of course we have had no opportunity to submit a budget prepared under this code. We do not know now just how we shall be able to co-operate with the general assembly when we do prepare it. But I think that the disposition of our general assembly is such that if it can be persuaded that a certain course is the right one, it will adopt that course. It must be remembered that our general assembly passed, of its own motion, legislation which abolished something over one hundred and twenty-five commissions, boards and other public officials. It is a good general assembly that will do that.

It has always been an anomaly that the general assembly, a body not charged with the responsibility of expending public money, a body that has had nothing to do with the administration in detail, even if it had all the facilities, independently of the executive, should pass the appropriation bills. The whole theory, since the House of Commons has had power to vote supplies, was that it might be a check upon the arbitrary exercise of power by the executive. It was never assumed that any executive, whether king, president or governor, would expend less money than it was to the interest of the people that he should expend. But appropriations had been made in all self-governing countries by the legislative body in order that there might be a check upon extravagant expenditures by the executive. It ought not to be necessary to guard against the expenditure of too little money by the governor by a constitutional requirement. Yet in order to make the budget which is prepared by the executive absolutely secure, there should be an amendment such as was contained in your rejected New York constitution, providing that the executive budget should be acted upon before any other appropriation bill is considered.

Of course many men believe that a budget is not necessary, because the people are always willing to vote all the money that is required for useful public purposes. I think that is true, but it is human nature that the better you know how much money you are going to have to expend, the more you will get for it. That applies to corporations and public bodies as much as to individuals. Therefore, until you have ascertained what you can reasonably raise, you are not in a position to apportion that money intelligently among the expenditures, and whenever you find a business man who runs away from his balance sheet, you find a business man with a receivership coming very soon. That is what we have been doing with our public expenditures all these years. The mere fact that we are great and rich and powerful makes it all the more important that we do ascertain, and ascertain before we begin to make up a budget, what we ought to expend, and what we reasonably can expend during the following year.

The time has come in this country when we ought to begin to lay down a definite and concrete program for the financing of this war. We know now about how much money we can raise by direct taxation. It ought to be possible, in the light of the experience we have had during these three loans, for the treasury officials and the financial powers of the country to ascertain how much money can be raised from the issue of bonds each year, indefinitely. When that is done the amount will certainly be large enough to finance this war indefinitely, and when the people have reconciled themselves to that, we have gone a long way towards winning the war. In other words, if we find that in addition to what we raise by direct taxation we can safely raise only ten billion dollars a year by the issue of bonds, we shall find that that ten billions, with the other billions that we are raising by direct taxation, will be enough—we will make it enough—to finance this war indefinitely. When we have adopted the principle of universal military service, and when we have adopted a definite and concrete financial program, we shall have served notice upon the people of Central Europe that we are going to fight this war out for the next century, if necessary, and we shall have gone a long way toward winning it.

THE ILLINOIS CIVIL ADMINISTRATIVE CODE¹

CHARLES E. WOODWARD

Ottawa, Illinois

COMMENCING about 1911 the states began a serious study of their administrative systems. The development of state governments, prior thereto, was along the line of popular control and the preservation of the balance between legislative, executive and judicial departments. In the meantime, however, economic conditions, social reorganization and growth, the increase of population, the advancement of science and the progress of humanity cast upon the states increased burdens and responsibilities. To discharge the increased duties, states resorted to boards, bureaus and commissions. The period between legislative sessions created new conditions demanding the oversight and control of government agencies. Hence, incongruities and absurdities resulted. Separate and disjointed authorities, acting without reference to one another, or to any central authority, were the rule and not the exception. The result was chaos, confusion, duplication of work, overlapping of duties and division of responsibility.

Out of this lack of system new problems emerged. The questions of energy and efficiency of government began to attract attention. The chaotic condition in Illinois received the serious consideration of the legislature in 1913 when a Committee on Efficiency and Economy was constituted

to investigate all departments of the state government, including all boards, bureaus and commissions which have been created by the general assembly, such investigations to be made with a view of securing a more perfect system of accounting, combining and centralizing the duties of the various departments, abolishing such as are useless, and securing for the State of Illinois such re-organization as will promote greater efficiency and greater economy in her various branches of government.

The committee employed experts and made a thorough study and survey of the details of the state government. It made its report

¹Read at the National Conference on War Economy, June 5, 1918.

and recommendations to the general assembly in 1915. The committee caused bills to be introduced in the general assembly in 1915 to carry into effect the recommendations of the committee; but, with the exception of a bill revising the law in relation to state contracts, none of the bills passed either house of the general assembly. In his pre-primary campaign for the Republican nomination for governor, Colonel Lowden, in his numerous speeches, laid stress upon the illogical organization of the state government, and insisted that, if state governments were to be respected, their numerous and over-lapping boards must be consolidated, and the budget system of appropriations and expenditures must be substituted for the hap-hazard system then existing.

In his inaugural message Governor Lowden said:

Administrative agencies have been multiplied in bewildering confusion. They have been created without reference to their ability economically and effectively to administer the laws. Separate boards govern the penitentiaries, the reformatories, and the educational institutions. Several boards and commissions have charge of matters affecting the agricultural interests. Administration of laws affecting labor is parceled out among numerous agencies, including several boards having jurisdiction of mining problems and several free employment agencies, each independent of the other. Our finance administration is chaotic, illogical and confused.

The administration of the health laws is divided between boards and commissions, with no effective means of co-ordination. Our educational agencies are not harmonious. Over one hundred officers, boards, agencies, commissions, institutions, and departments are charged with the administration of our laws. No systematic organization exists, and no adequate control can be exercised. Diffusion rather than concentration and responsibility marks our system.

One of the imperative needs of the state is the consolidation of its multiplied agencies into a few principal departments. The governor is held responsible for the conduct of the state government. His executive functions should be discharged through a limited number of agencies over which he may exercise actual control. Under the present system of confusing perplexity, the governor cannot exercise the supervision and control which the people have a right to demand.

In the meantime, work had been commenced on the necessary bills to vitalize into law the ideas expressed by Governor Lowden both in his campaign and in his inaugural message. The facts gathered by the Efficiency and Economy Committee, and embodied in its report, constituted the basis for the preparation of legislative measures. In general, the committee recommended the re-organi-

zation and consolidation of more than one hundred separate offices, boards, bureaus and commissions into ten executive departments. Following its general recommendation, the committee made specific recommendations as to the constitution of the several proposed departments.

The specific form of organization recommended by the committee was, after mature deliberation, rejected as not conducing to either strength, harmony or unity of administration. For example, the committee recommended the creation of a department of finance, under a state finance commission, consisting of a state controller, a tax commissioner, a revenue commissioner and the auditor of public accounts and the state treasurer *ex officio*.

Each official was to be in charge of a particular division and each having specific statutory duties to perform. Again, the committee recommended the establishment of a department of public works and buildings

under a public works commission of three members, one to be commissioner of highways, one commissioner of waterways and one fish and game commissioner; with bureaus for each of these services and also other bureaus under the superintendent of buildings and grounds, the superintendent of state parks and the state art commission.

The specific recommendations contemplated bureaus within bureaus, and divisions within divisions. In some instances, an individual was placed at the head of a department, and in others a board or commission was made the directing head. Statutory duties were devolved upon subordinate officers and boards within a department. For all practical purposes the several offices, boards and bureaus were independent. As the scheme was outlined, no department would have an actual and responsible head having control of all the activities of his department.

It occurred to Governor Lowden, therefore, that while the general conclusion of the Efficiency and Economy Commission was valid and should be incorporated into law, yet the specific methods recommended were not only inexpedient, but detrimental to administrative efficiency. It seemed to him that the central idea of the report could be carried into effect by a single enactment. The bill, as finally drafted, proceeded upon the theory of the administrative reorganization of the several departments. It abolished numerous independent offices, bureaus, boards and commissions. It sub-

stituted in their place nine departments, in each of which is a responsible head known as a director. Each director is vested with ample authority of supervision and control. Subordinate division heads act under the great department leader. The department leaders labor together in co-operation with the governor as the supreme head. State activities are fused and welded into one coherent mass. Dealing with functions, the act simply consolidates governmental agencies. No additional powers or duties were given to the governor. No new duties on the part of the citizen were created. The substantive law remains the same. Only the instrumentalities through which it is enforced are changed.

Our legislators have too long ignored a vital principle in the enactment of administrative statutes. Administrative statutes are cluttered up with great elaboration of detail as to the means by which an administrative officer shall discharge his duties. Pursuing this theory, the legislature assumes the duties, without the responsibilities, of administration. The result has been that administration as well as legislation has been written into our statute law. The extreme of popular control was secured; energy and efficiency of administration were sacrificed.

The Illinois Civil Administrative Code is elastic and flexible. It omits details as to the inter-relationship between the offices which it creates. It enumerates broad general principles by which the government shall be administered. For instance, it provides that the department of finance shall "prescribe and require the installation of a uniform system of bookkeeping, accounting and reporting for the several departments," but does not attempt to enumerate any further rules on that subject for the guidance of the head of the department. It prescribes no duties for any subordinate executive officer. The act proceeds upon the theory that the work of each department will necessarily fall into broad, general classifications or divisions. It is assumed that the director of the department will organize his work and assign his subordinate officers to such duties as the exigencies of business may from time to time require. By this means not only are elasticity and flexibility secured, but responsiveness and responsibility of administration are assured.

The Civil Administrative Code organizes the civil governmental agencies under the jurisdiction of the governor, with the exception

of the civil service commission and of certain temporary boards, into nine departments as follows:

- (1) The department of finance
- (2) The department of agriculture
- (3) The department of labor
- (4) The department of mines and minerals
- (5) The department of public works and buildings
- (6) The department of public welfare
- (7) The department of public health
- (8) The department of trade and commerce
- (9) The department of registration and education.

The officers and boards under the civil administrative code are divided into three classes, namely, (1) executive officers; (2) quasi-judicial or quasi-legislative boards; and (3) non-executive boards.

In the survey of the activities of the state government it was found that there were certain boards or commissions which discharged quasi-judicial or quasi-legislative functions. In the discharge of functions which are purely executive, the fundamental principles of government dictate that one man should have the entire responsibility. However, in the discharge of functions which are quasi-judicial or quasi-legislative, it is essential that the opinion of a reasonable number of men, acting as an entity, should be procured. Hence in the construction of the Civil Administrative Code all functions which are primarily quasi-judicial or quasi-legislative are committed to the proper board or commission. The quasi-judicial or quasi-legislative boards are as follows: the food standard commission in the department of agriculture, composed of three persons; the industrial commission in the department of labor, composed of five persons; the mining board in the department of mines and minerals, composed of five persons; the miners' examining board in the department of mines and minerals, composed of four persons; the public utilities commission in the department of trade and commerce, composed of five persons; and the normal school board in the department of registration and education, composed of ten persons. Each board acts as an entity. While the director of mines and minerals is a member of the mining board, and the director of registration and education is a member of the normal school board, yet each quasi-judicial or quasi-legislative board exercises its quasi-judicial or quasi-legislative func-

tions without any supervision, direction or control by the director of the department. Each such board, however, is a component part of the department to which it belongs, and is not independent of the general system of finance and budget to which all officers under the code are subjected. Both the executive officers and the members of the quasi-judicial and quasi-legislative boards, excepting two food standard officers, the members of the mining board, and the members of the normal school board, are required to devote their full time and attention to the duties of their several offices. For this purpose each receives a fixed annual compensation.

Many questions of policy and expediency are presented for solution in an executive department. To assist and advise the director of the department and the governor in matters of broad policy of administration, it was deemed wise to make provisions for advisory boards. Hence advisory boards were created as follows: the board of agricultural advisers in the department of agriculture, composed of fifteen persons; a board of state fair advisers in the department of agriculture, composed of nine persons; a board of Illinois free employment office advisers in the department of labor, composed of five persons; a board of local free employment office advisers in the department of labor, composed of five persons from each employment office; a board of art advisers, a board of water resource advisers, a board of highway advisers, a board of parks and buildings advisers, each in the department of public works and buildings, and each composed of five persons; a board of public welfare commissioners in the department of public welfare, composed of five persons; a board of public health advisers in the department of public health, composed of five persons; a board of natural resources and conservation advisers, composed of seven persons; and a board of state museum advisers, in the department of registration and education, composed of five persons. The object of the advisory boards as above indicated was to put at the service of the state the expert skill of persons who were qualified in their particular lines of endeavor but who, though unable to devote their entire time and attention to the business of the state, would, as a matter of public duty, put their skill and professional experience at its disposal. The members of the several advisory boards receive no compensation.

One of the objects intended to be accomplished by the code is to secure a responsive and responsible administration. The governor

can discharge the varied activities committed to him by the constitution and the statutes only through the instrumentality of subordinate officers. He should be given full power to succeed or to fail. At the very moment when he takes the oath of office, he should be given full control of all executive agencies responsible to him, in order that his administrative policy may be guided and directed by men in sympathy with his program. Hence the administrative code provides that the term of office of all officers created by it, excepting the members of the normal school board, shall commence on the same day as that of the governor. The term of each officer, therefore, with the exception noted, is four years. The term of office of the members of the normal school board, other than that of the director, is six years, three members retiring each two years. Upon taking the oath of office, therefore, the governor is in full and complete charge of all of the activities of his administration, and can institute at once, and without embarrassment, the executive policies which he desires to be worked out.

Under the practice prevailing prior to July 1, 1917, it was difficult in many cases for the citizen having business with any board or commission to ascertain the business address of such board or commission. Some were located in Springfield, some in Chicago, and some throughout the smaller cities of the state. The code changes all this. Any citizen having business with any of the executive departments under the governor can transact such business through the central office at Springfield. Each department is required to maintain at the capital a central office, but for the discharge of certain activities of its department, it may maintain branch offices in other parts of the state. In this way it is intended to work out a plan by which thousands of dollars may be saved by the state on account of the rent of offices, not only in Chicago but elsewhere.

Closely allied with the subject of centralized offices at Springfield is that of co-operation and co-ordination of work as between departments. Not only may the great number of offices rented for the use of the several departments be greatly reduced, but the employes of a given department may be used to discharge functions pertaining to other departments, thus reducing the number of employes, and increasing the efficiency of administration. Inasmuch as the code does not revise and codify the statutory law

pertaining to the several departments, but leaves the substantive law just as it is, to be enforced by the proper department, it was inevitable that there should be overlapping and duplication of functions. By the provisions of the code, providing for co-operation between departments, this duplication, in the practical administration of laws, is to a large extent done away with, without the necessity of any subsequent legislation.

In addition to the provision relative to co-operation between departments, the code creates a strong centralized purchasing agency in the department of public works and buildings. Prior to July 1, 1917, each board, commission or officer purchased his own supplies. Under the code, the department of public works and buildings is required to make purchases for all departments, thus affording a means by which the state may not only standardize its purchases, but effect a great saving in money by reason of purchasing in large quantities.

The department of finance is probably the most important of the new departments. Roughly speaking, the functions of the department of finance may be classified as follows: (1) To prescribe and install a uniform system of bookkeeping, accounting and reporting; (2) to examine into the accuracy and legality of the accounts and expenditures of the several departments; (3) to examine and approve, or disapprove, all bills, vouchers and claims of the several departments; (4) to prepare and report to the governor estimates of the income and revenues of the state; (5) to prepare and submit to the governor a state budget; and (6) to formulate plans for the better co-ordination of departments.

Through this department a centralized control of the expenditures made by agencies responsible to the governor is effected.

While the department of finance has no direct control over the expenditures made by any department other than those created by the Civil Administrative Code, yet it is required to make a study of the whole field of governmental needs, and to prepare and submit to the governor, to be by him submitted to the general assembly, a state budget, embracing therein the estimated revenues, and the needs, not only of the several departments under the code, but of all other agencies of the government other than the general assembly. The budget of the department of finance will disclose the needs of the state, together with full information based upon thorough and detailed study. When the next general assembly con-

venes it will have before it, for the first time in its history, adequate, classified and detailed information upon which appropriations may be made with intelligence.

The department of finance was practically a new conception. It took over no work performed by any other board or commission. Not so with the other departments. The department of agriculture is charged with the exercise of the powers and duties vested by law in the following: (1) The board of live stock commissioners; (2) the state veterinarian; (3) the stallion registration board; (4) the state inspectors of apiaries; (5) the state game and fish commission; (6) the state food commissioner; (7) the state entomologist; (8) the humane agents; (9) the state laboratory; and (10) the state fair board after January 1, 1919. It is also charged with certain affirmative duties pertaining to the procuring and disseminating of knowledge relative to agricultural interests.

The department of labor is charged with the exercise of the powers and duties vested by law in the following: (1) The commissioners of labor; (2) the free employment offices and local free employment offices; (3) the chief inspector of private employment agencies; (4) the chief factory inspector; (5) the state board of arbitration and conciliation; (6) the industrial board. (7) It is also charged with the collection of data and information relative to labor and the dissemination thereof.

The department of mines and minerals is charged with the exercise of the powers and duties vested by law in the following: (1) The state mining board; (2) the state mine inspectors; (3) the miners' examining commission; (4) the mine fire fighting and rescue commission; (5) the Illinois miners' and mechanics' institutes.

The department of public works and buildings is charged with the exercise of the powers and duties vested by law in the following: (1) The state highway commission; (2) the canal commissioners; (3) the rivers and lakes commission; (4) the Illinois waterway commission; (5) the Illinois park commission; (6) the Fort Massac trustees; (7) the Lincoln Homestead trustees; (8) the Lincoln Monument commissioners; (9) the superintendent of printing; (10) the supervising engineer; (11) the state art commission; (12) the state inspector of masonry. The office of the state architect is abolished, and the policy of providing for a supervising architect is substituted. The department of public works

and buildings is given supervision over all public monuments and memorials erected by the state.

The department of public welfare is charged with the exercise of the powers and duties vested by law in the following: (1) The board of administration, which had jurisdiction over the charitable institutions of the state, consolidated by the act of 1912; (2) the state deportation agent; (3) the state agent for the visitation of children; (4) the Illinois penitentiary; (5) the Southern Illinois penitentiary; (6) the Illinois state reformatory; (7) the board of prison industries; (8) the board of classification; and (9) the board of pardons. Under the department of public welfare the administration of all the charitable institutions and of all the penal institutions is consolidated.

The department of public health is charged with the exercise of the powers and duties vested by law in the state board of health, excepting the registration of physicians, midwives and embalmers. Other broad and general powers relating to health and sanitation are vested in this department.

The department of trade and commerce is charged with the exercise of the powers and duties vested by law in the following: (1) The public utilities commission; (2) the insurance superintendent; (3) the grain inspection department; (4) the inspector of automatic couplers; (5) the state fire marshal; and (6) the statute in relation to weights and measures.

The work of the department of registration and education falls under three principal classifications. Under it are consolidated for administrative purposes the five normal schools. The principal work of the department will be the examination of applicants for the trades and professions. It will exercise the license powers vested by law in: (1) The board of veterinarian examiners; (2) the board of examiners of horseshoers; (3) the state board of examiners of architects; (4) the state board of examiners of structural engineers; (5) the state board of health; (6) the state board of pharmacy; (7) the state board of dental examiners; (8) the state board of nurse examiners; (9) the state board of optometry; and (10) the state board of barber examiners. Another function of the department of registration and education is to act as the scientific and investigating body for the other departments. To that end its educational activities may be roughly classified as relating to conservation and development of natural

resources, the study of the zoology and botany of the state, the maintenance of a state museum for the collection and preservation of objects of scientific and artistic value, and the study of entomology, water resources and geology.

The code is not so comprehensive as it should be. It was found impractical and inexpedient to make the consolidation act as comprehensive as the theory of administrative consolidation would permit. The theory was modified by the constitutional provision creating the independent state offices of secretary of state, auditor of public accounts, state treasurer, superintendent of public instruction, and attorney general, and prescribing to these officers certain duties.

It was further modified by the provisions of the state statutes relating to the election by the people of a board of equalization, and of trustees of the University of Illinois. However, as above noted, it consolidates into one coherent system practically all the activities for which the governor is responsible. It is safe to say that the Illinois Civil Administrative Code constitutes a radical innovation in state administration. While necessarily omitting certain state activities, it is the first comprehensive scheme enacted into law to render our state government stronger and more efficient.

THE FIRST STATE EXECUTIVE BUDGET¹

EMERSON C. HARRINGTON
Governor of Maryland

THE Executive Budget was established in Maryland by an amendment to our state constitution. The legislature of Maryland at its regular session of 1916 passed a bill amending the constitution of the state so as to provide for an Executive Budget for Maryland, and as required under our constitution this amendment was submitted to the people of our state for their approval or rejection. At the general election of 1916 it was approved by the people by an overwhelming majority, and therefore all appropriations thereafter had to be made in accordance with the Budget Amendment. The manner of passing appropriations, leading as it did to appropriations by the legislature of 1914, for the fiscal years intervening from one legislature to another, of over \$1,500,000 in excess of the revenues for the same time, at a time when the governor was of one political faith and the legislature of another, had caused both political parties to make the fiscal condition of the state the leading issue, and thereby both of the two great political parties declared in favor of an Executive Budget. The result was that the passage of the amendment by the legislature and its ratification by the people was proposed and carried most opportunely. Our legislatures meet every two years, so that the real test or try-out occurred at the last legislature, the legislature of 1918.

I presume the manner of appropriating money by the legislatures of the different states has heretofore been similar to our own, that the Finance or Ways and Means Committee would not bring out the bill until almost the last moment. Then the bill carrying all the expenditures for the state departments and the state government was finally passed in the last hours under a suspension of the rules, generally allowing each senator or delegate practically what he wanted for his own county or locality, regardless of the amount appropriated, and leaving it to the executive to do the paring. In our state the executive, it is true, could cut down or

¹Read at the National Conference on War Economy, June 5, 1918.

veto the separate items of an appropriation bill, but I understand that in many states even this cannot be done. The members of the two committees appropriated this money upon no scientific or expert plan and had not before them any synopsis or summary either of the revenues or their contemplated expenditures. Largely it was a question of log rolling and of senatorial or delegate courtesy. In our state we had also a system of continuing or annual appropriations, which when made and marked annual would go on forever as appropriations without any further legislative action. Some of these appropriations of ours were of over 100 years' standing, and most of them were not known to exist by the average member of the legislature. As a preliminary to all budget making the legislature of 1916 wiped out all continuing appropriations of every kind or character whatsoever, so that no money could be available except what was specially stated in the appropriation bill.

Our Budget Amendment was drawn after the most careful consideration by a Budget Committee which I appointed, with President Goodnow, of Johns Hopkins University, as chairman.

I will briefly state the points of this amendment:

Section 52. The general assembly shall not appropriate any money out of the Treasury except with the following provisions:

Sub-Section A: Every Appropriation Bill shall be either a Budget Bill, or a Supplementary Appropriation Bill, as hereinafter mentioned.

Sub-Section B: Within twenty days after the convening of the general assembly (except in the case of a newly elected governor) and then within thirty days after his inauguration (unless such time shall be extended by the general assembly for the session at which the Budget is to be submitted, the governor shall submit to the general assembly two budgets, one for each of the ensuing fiscal years. Each budget shall contain a complete plan of proposed expenditures and estimated revenues for the particular fiscal year to which it relates; and shall show the estimated surplus or deficit of revenue at the end of such year. Accompanying each budget shall be a statement showing: (1) the revenues and expenditures for each of the two fiscal years next preceding; (2) the current assets, liabilities, reserves and surplus or deficit of the state; (3) the debts and funds of the state; (4) an estimate of the state's financial condition as of the beginning and end of each of the fiscal years covered by the two budgets above provided; (5) any explanation the governor may desire to make as to the important features of any budget and any suggestion as to methods for the reduction or increase of the state's revenue.

Second.—Each budget shall be divided into two parts, and the first part shall be designated "governmental appropriations" and shall embrace an

itemized estimate of the appropriations: (1) for the general assembly as certified to the governor in the manner hereinafter provided; (2) for the executive department; (3) for the judiciary department as provided by law, certified to the governor by the comptroller; (4) to pay and discharge the principal and interest of the debt of the state of Maryland in conformity with Section 34 of Article III of the constitution, and all laws enacted in pursuance thereof; (5) for the salaries payable by the state under the constitution and laws of the state; (6) for the establishment and maintenance throughout the state of a thorough and efficient system of public schools in conformity with Article VIII of the constitution and with the laws of the state; (7) for such other purposes as are set forth in the constitution of the state.

Third.—The second part shall be designated “general appropriations,” and shall include all other estimates of appropriations.

The governor shall deliver to the presiding officer of each house the budgets and a bill for all the proposed appropriations of the budgets clearly itemized and classified; and the presiding officer of each house shall promptly cause said bill to be introduced therein, and such bill shall be known as the “Budget Bill.” The governor may, before final action thereon by the general assembly, amend or supplement either of said budgets to correct an oversight or in case of an emergency, with the consent of the general assembly, by delivering such an amendment or supplement to the presiding officers of both houses; and such amendment or supplement shall thereby become a part of said budget bill as an addition to the items of said bill or as a modification of or a substitute for any item of said bill such amendment or supplement may affect.

The general assembly shall not amend the budget bill so as to affect either the obligations of the state under Section 34 of Article III of the constitution, or the provision made by the laws of the state for the establishment and maintenance of a system of public schools, or the payment of any salaries required to be paid by the state of Maryland by the constitution thereof.

The general assembly may increase or diminish the items relating to the general assembly and may increase, but not decrease, the items therein relating to the judiciary. In all other respects the legislature cannot increase any items of appropriation, but may strike out or decrease, with one exception, that is, it cannot decrease the salary of a public official during his legal tenure of office.

The budget bill as then passed by both houses becomes a law without the governor’s signature.

The governor or any one of the department heads designated by the governor has the right to appear and be heard in respect to any budget bills while they are being considered, and still further

it is made his duty to do so if requested by either house of the legislature, to answer inquiries relating thereto.

Sub-Section C; Supplementary Appropriation Bills: Neither house shall consider other appropriations until the Budget Bill has been finally acted upon by both houses, and no such other appropriation shall be valid except in accordance with the provisions following: (1) Every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a supplementary appropriation bill; (2) Each supplementary appropriation bill shall provide the revenue necessary to pay the appropriation thereby made by a tax, direct or indirect, to be laid and collected as shall be decided in said Bill.

A majority in each house of the whole number elected is required to pass a supplementary bill and the yeas and nays must be recorded. The requirement for the revenue to be provided in the bill places the responsibility, whether the tax be a direct or an indirect one. Moreover, all supplementary bills are to be presented to the governor and are subject to his veto under the same conditions as now apply.

Nothing, however, shall be construed to prevent the legislature, under the same conditions and qualifications as now, from passing any bill to pay for any obligation of the state of Maryland under the provisions of section 10 of article 1 of the Constitution of the United States. Should the budget bill not be finally acted upon within three days before the expiration of the regular session, the governor can by proclamation extend the term, but no other matter save the budget bill shall be considered except as to its cost.

Likewise, the governor is given full power to require all departments and heads to report to him and all institutions applying for or receiving state aid to give such itemized estimates and information as, and in such form as he may desire.

The governor has the power to provide for public hearings and to compel attendance of all necessary parties.

The legislature may enact such laws as may be found necessary from time to time to carry out the provisions of this constitutional amendment.

In the case of any inconsistency between any provisions of this amendment and any other of the constitution, the provision of this amendment shall prevail. Nothing in the amendment, however, shall effect any obligations as to the public debt as provided for in section 34 of article 10 of our Constitution; and the governor may as heretofore call an extra session of the legislature for the same

purposes as now provided, and in such a case the legislature can consider any emergency appropriation or appropriations.

In our budget system, the items of the budget can be reduced or eliminated, but not increased by the legislature. This limitation is fundamental in my opinion for any sound budget system. It will be noticed that the governor has to include the salaries provided for by law for the public officials, also the salaries and expenses of the judiciary have to be included as certified to him by the controller as fixed by statute, and third, that the legislature has control of its own running expenses, the governor having to put into the budget what the presiding officers of the legislature estimate as the proper expenditures for the succeeding legislature. The idea was that the governor should not have the power to reduce salaries fixed by the constitution or by law, and that the independence of the judiciary and the legislature as to their own expenses should be maintained.

Now for the operation of the Executive Budget. The legislature of 1916 had not specially provided for any aid for the governor in preparing the budget, nor had they appropriated any special sum for that purpose, but the governor had a very fair contingent fund which was available for such a contingency, and as the present governor had been the controller of the state for the four years previous to his election as governor he had the advantage of intimate knowledge of the fiscal affairs of the state and of the needs and the necessities of the different departments. He was, therefore, enabled by the help of Mr. A. E. Buck, recommended by Dr. Beard of the Bureau of Municipal Research of New York city, together with his own office force, to complete the budget practically within the time prescribed by the constitutional amendment.

Our legislature of 1918 made appropriations for the two following fiscal years, the first beginning October 1, 1918, and ending September 30, 1919, and the second beginning October 1, 1919, and ending September 30, 1920, called with us the fiscal years 19 and 20.

First we prepared and forwarded to all state institutions or departments certain blanks to be filled in by the proper authorities and requiring them to furnish, first, all their receipts and expenditures for 1917, giving the names and positions of all employes, and, second, their requirements for 1919 and 1920, under proper headings and in the requisite detail.

On receipt of these reports, wherever we deemed hearings necessary for the proper information of the governor, we requested the necessary officials to come before us and bring whatever books or information we desired, and in certain instances we detailed the state auditor for certain information. On the other hand, all state institutions or departments desiring a hearing were given a full opportunity to be heard; likewise all persons interested in any appropriation or any proposed legislation requiring appropriations.

We have heard a criticism that these hearings ought to be compulsory on the part of the governor wherever asked for by any department or by any person interested. I see no real objection to this, although I am confident that such objection is only a critical one and is entirely unnecessary in procuring proper hearings by all persons interested.

The governor, after proper hearings and proper investigation, fills in his own allowances after every proposed item of salary or expense for all the departments or state institutions.

In Maryland the state has been appropriating money quite largely to what we call "state-aided" or benevolent associations or institutions. We have the Board of State Aid and Charities, whose duty it is carefully to examine each detail of these institutions and make a report to the governor with its recommendations prior to the assembling of the legislature. Their report gives in detail the assets and liabilities of the institutions, as well as all details of their service. With this report before him the governor allowed each of the hospitals a per capita allowance for each free hospital day and other institutions in accordance with their free work done.

Attached to each of these budgets was an itemized statement of the receipts and expenditures for 1917 and the estimated receipts and expenditures for 1918, showing the surplus carried over from 1917 to 1918, and the estimated surplus to be carried over from 1918 to 1919. Likewise accompanying the budget was a detailed statement of the estimated revenues for the fiscal year 1919 and a statement of the proposed expenditures as allowed by the governor, showing the surplus to be carried over from the fiscal year 1919 to the fiscal year 1920, provided the estimates of the receipts for the fiscal year as made by the governor should be correct, and the allowances as made by the governor in expenditures were not changed. There was also a statement showing the

estimated receipts for 1920, and the governor's allowances in expenditures for the same year, showing the surplus which would be brought down if these estimates were correct and the allowances remained intact. By this plan, of course, there could be no deficiency if the estimates of receipts were correct, for in that case the surplus might be increased by the action of the legislature, but no deficit could occur.

Now what are the defects of this plan? One of the particular criticisms I have to make is one not of the system, but of the past legislature. There were so many questions of a partisan character, so many questions of importance which were so hotly contested, that in neither the senate nor the house did the committee devote sufficient time in the consideration of the budget to act upon it properly or intelligently, particularly the Ways and Means Committee of the house. What had taken the governor three months for preparation after an intimate acquaintance of four years, the Ways and Means Committee passed upon in practically two or three sittings, each of very short duration. The Finance Committee of the senate approved the governor's budget appropriating about \$12,000,000 *in toto*, and the Ways and Means Committee all except two or three items, the legislature passing the Budget Bill after striking out but one item of \$2,000. The governor would naturally feel complimented that the legislative branch of the government cut down his appropriation by only \$2,000 out of \$12,000,000 appropriated, but as a matter of fact, the efficiency of the Executive Budget plan in large part depends upon an intelligent revision of the governor's allowances made by the legislature after a most careful and patient study and consideration of the different items of appropriation. Under our amendment the governor and all department heads are subject to the proper examination on all matters of appropriation, but when a legislature confines itself to a single item of appropriation as a subject of criticism it is not meeting the obligations imposed by the Budget Amendment. With us the result has been that the details of every department are open to the public. It remains in book form subject to scrutiny for future legislatures. The different departments get accustomed to asking for appropriations after a very careful and detailed estimate of their requirements, and they feel a greater responsibility in keeping within the budget allowances.

We did not desire to take away every opportunity to meet unforeseen contingencies, so that in our Budget Bills we have permitted the different department heads and institutions to have some flexibility in their expenditures by filing a different statement of proposed expenditures, which becomes effective upon the approval of the governor, but the sum total cannot be exceeded.

The Budget Bill provides:

That the items and amounts which hereinafter follow the sums appropriated, and which are, respectively, entitled "Schedule," do not constitute appropriations, but represent the initial plan of distribution and apportionment of the appropriations to which they, respectively, refer. Each appropriation shall be paid out only in accordance with the schedule therefor, if any, unless such schedule be amended in the following manner: any department, board, commission or officer may at any time submit in writing to the governor an amended schedule for the distribution and apportionment of the appropriations made to it or him, or any unexpended balance thereof, different from the manner set forth in the schedule contained in this act. The governor may himself make such an amended schedule, if the same be necessary, with respect to the appropriations for the Executive Department. If the governor shall make such an amended schedule with respect to the appropriations for the Executive Department or if he shall approve an amended schedule when submitted to him as aforesaid, then he shall transmit the same with his certificate of approval to the comptroller, and thereafter the appropriation, or the unexpended balance thereof, shall be paid out in accordance with such amended schedule. Any amended schedule, so submitted to the governor may be withdrawn and amended to meet any objections of the governor, and then resubmitted. Any such amended schedule may be again amended, at any time, in like manner and with like effect. All amendments and schedules thus made or approved by the governor shall be reported by him to the next session of the general assembly.

The legislature of 1918 kept its own expenditures down to estimated expenditures and well within the appropriation of 1916, and no extra bills for the fiscal years 1919 and 1920 were passed. There was a total absence of lobbying in the interest of appropriations or of personal solicitations by departments or institutions upon the members of the legislature. The state institutions and departments and the state-aided or benevolent institutions accepted the allowances of the governor without any protest.

The chief difficulty we had in making up a budget in Maryland was that some of our departments, such as the Insurance Department, the State Accident Commission, the Conservation Commission and the Automobile Commission, were accustomed to collect

their own revenues and pay their own expenses and turn over balances to the treasurer. There could not be an effective budget unless all of the revenues were paid into the general treasury and all expenditures made therefrom, so it became necessary for legislation to be passed turning all the receipts into the general treasury, which was done.

Another embarrassment, equally great to one kind of a budget as to another, is that some of our institutions, such as our insane asylums, not only get an appropriation from the state, but a proportional per patient appropriation from Baltimore city and from the different counties. In our budget in such cases we have fixed the salaries and expenses in detail to be allowed, and with their statement of the revenues from the counties and from other sources, such as their farms, the state has appropriated the difference between such total and the total of the expenditures allowed for salaries and expenses. In my opinion it would be still better for these different revenues to be paid over to the state and for the entire appropriation to be paid direct from the treasury of the state.

Furthermore, where a proper contingent fund is not placed at the disposal of the governor for proper investigations of the different institutions or departments, the necessary aid to the governor for assisting in the preparation of the budget should be provided.

In our state the Board of State Aid and Charities is appointed by the governor and reports to him. It makes a very careful examination of all state-aided institutions and all state institutions. The state auditor's department is likewise available to the governor for any investigations. I can readily conceive, however, that if someone not well acquainted with the finances of the state and the workings of the departments should be elected governor, the burden of the executive would be a most difficult and troublesome one. After the first budget has been made the following budgets should not be so difficult, as the forms and other details of the departments are then so fully and completely disclosed, but the greatest difficulty which I conceive in the way of an Executive Budget is providing for any proposed new departments or commissions, or any new projects, the wiping out of any departments or useless offices, or the consolidation of any two or more departments. But considering the trend of modern politics, where the

governor is supposed to take the initiative and to be the real leader during his administration, I believe these difficulties can be met and overcome. At the session of 1918 wherever I advocated a new department I put the necessary appropriation in the Budget Bill, making the appropriation contingent upon the passage of the necessary legislation, and had introduced the necessary legislation as an administration measure. Where I was opposed to a department or office not called for by the constitution, but created by law, I put in the appropriation but in my message to the legislature I recommended the abolition of the office or department and the rejection of the appropriation.

There are four kinds of budgets which have been advocated: A budget by the Board of Public Works, a budget by a Budget Commission, an Executive Budget and a Legislative Budget. "A budget by the Board of Public Works would have the disadvantage of dissipating personal responsibility, and would also not necessarily place party responsibility." I think the same objection would apply to a Budget Commission. Every plan I have so far seen for a Legislative Budget fails to meet the full requirements of a real budget in that it limits no responsibility, it carries with it no authority or prestige, it constitutes members of the legislature a permanent and paid commission to prepare and submit a financial plan to the legislature, with no restrictions, and allows the legislature to act quite independently of the commission. It permits the legislature to select some of their own number to become a paid commission to prepare a budget plan, and if enacted into law, this plan would more surely perpetuate invisible and irresponsible government. If the only purpose of a Legislative Budget, a Commission Budget or any budget is simply to place certain information before a legislative body, I respectfully submit that in practice the desired ends will not be achieved.

President Taft urged the Executive Budget in a special message to Congress, February 26, 1913. The New York Constitutional Convention endorsed it by a vote of 132 to 4. It has been advocated by the Chamber of Commerce of the United States, composed of the principal commercial bodies of the country. Mr. Fitzgerald, chairman of the Committee on Appropriations of the House of Representatives, while once opposed, on June 26, 1915, went before the New York Constitutional Convention at Albany and put himself on record as favoring the Executive Budget. The reasons

given by him are so apt that I take the liberty of quoting him in part. He said:

We ought to have some way in the system of our government to fix direct responsibility and you cannot fix responsibility if the power is too widely scattered. I would put it in the executive. I would make him responsible at the outset. Some persons object that we should not deprive the representatives of this right to loosen up the purse strings, but the universal condition in this country today is not what must safeguard the rights of the people to get money for things. The whole curse of our condition is that everybody is doing his utmost to get it and succeeds.

Now if there were some way by which that could be stopped, it would do what is done in the government where they have a responsible government with a budget system.

By an Executive Budget the whole plan is placed before the legislature and before the people of the state at an early date, by one who has had full opportunity for investigation and whose responsibility is in the open, while under the system heretofore prevailing in our state there is no plan; there is no well-defined program; there is nothing to criticise, because these appropriation bills as heretofore made up do not take definite form, until too late for any intelligent or effective criticism. The public does not know their contents and few members do outside of one or two men who control the conduct of the bill.

I know it has been said that the giving of such power to the governor "smacks of monarchy and makes him a dictator." In this country there need be no fear of that, no fear that the Executive Budget will make him an invincible power. Such will not be the case. It can be a case of weakness rather than strength. With our amendment he has to come in the open forum and defend his recommendations. Everything is in the limelight and invisible or irresponsible government will become a thing of the past. There at least need be no fear in my own state of Maryland of any governor becoming a dictator or perpetuating himself in power, for no governor since the Civil War has ever been re-elected in our state.

For the first time in our state the budget gives us a concrete statement of our fiscal condition and a concrete statement of all our revenues and expenditures in every detail. So far I have heard no complaint. The responsibility for expenditures is fully fixed. I am confident that the Executive Budget, in our state at least, has come to stay.

RESPONSIBLE LEADERSHIP AND RESPONSIBLE CRITICISM¹

BY FREDERICK CLEVELAND

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THE permanent good humanity will get from this war will not be a victory of democracy over Prussianism; but a victory of democracy over its own weakness. Prussian "Kultur," like the pneumo-coccus, is dangerous only because its victims are not fit. Democracy has been slack—we may even say slovenly—in its institutional habits. What gives to this war on Prussianism its greatest import is not alone the fact that we must at once so order our lives and adapt our institutions that we may be strong enough to resist attack, but that before we can become strong we must find out the cause of our weakness.

In this quest we may easily be misled. For example: During the last three or four weeks the daily press has carried as news an attack made by ex-President Roosevelt on the Wilson administration. What is featured by Mr. Roosevelt is an alleged attempt on the part of President Wilson, through Mr. Burleson and others, to muzzle the press. These are some of the headlines:

"T. R. Says Administration is Trying to Cover Its Own Weakness."

"Wilson Stifles Honest Criticism."

"Administration Has Used Its Power to Stifle Publicity."

"Constitutional Right of Free Press Denied."

In this colloquy two charges are made: First, that the administration has been weak—that there has been confusion and waste at a time when every ounce of man-power and material resource is needed to win the war. Second, that the President, under the claim of need to exercise military censorship, is using the same methods of repression and control over the press that is practiced by the Prussians.

An appeal is made by Mr. Roosevelt to the underlying ideals of democracy. The assumption which lies back of his criticism is that our executive leadership shall be strong; that the govern-

¹ Read at the National Conference on War Economy, June 5, 1918.

ment shall not be wasteful; that the executive and his cabinet shall be held to strict account before the public for his every act and proposal. But Mr. Roosevelt's criticism is personal. The idea conveyed to the public is that in his opinion such weakness and waste as has obtained in handling the work of this great war has been due to the personnel of those running the government, and that now it is trying to cover up its own shortcomings.

The significant fact is this: that the one thing this "made-in-Germany" war is doing and will continue to do is to help us to see that in our institution building we have done violence to the very ideals to which Mr. Roosevelt appeals.

To show that our essential weakness is institutional let us remove ourselves from the realm of personal controversy. Let us go back to the Spanish-American War, when Mr. Roosevelt was in authority, first as Assistant Secretary of the Navy, later as a military commander giving orders at the front. At that time there was the same confusion and waste in raising and equipping a small army of 200,000 men that there has been during the last year in raising an army ten times as large.

To appreciate what happened at that time, let us read from one of the most matter-of-fact, painstaking writers of history. Showing the embarrassment under which the McKinley administration labored, Sargent says:

Nearly everything had to be created; clothing, tentage, wagons, ambulances, arms—in fact everything in the way of uniform and equipment—had to be contracted for or manufactured. . . . Wagons, ambulances and horses could not be purchased immediately in sufficient number; great difficulty was experienced in obtaining sufficient canvas to supply the army with tents; and no khaki cloth for uniforms was to be had in the United States. All this resulted, of course, in great inconvenience to the troops. The volunteers had to accept an inferior rifle with black powder; a number of regiments could obtain no tents; the entire army was short of transportation; and many soldiers had to go to the tropics and fight in winter clothing.

The confusion in leadership was appalling—and what is more, profiteering had a suggestion of venality that today is almost wholly lacking. There was more of the spirit of gang loyalty and less of the spirit of individual devotion to a great national cause. There was more of the confusion and waste and wantonness of the Civil War. But this confusion of leadership and administra-

tion was not to be charged to lack of quality in President McKinley—not even to Mark Hanna.

Consider the kind of leadership we then had. On the supply side of the military establishment there were twelve different bureaus or offices, which had been created—not by the president as the responsible institutional military leader for his assistance and guidance—but established by Congress. Congress using its legislative powers had violated the spirit of the Constitution, which makes the president, as commander-in-chief of the army and navy, responsible to the people. And it set up against the president a bureaucratic feudalism; one lord was given jurisdiction over the buying and making of guns and ammunition—responsible to a committee of Congress; another over buying or making clothing and equipage and providing quarters—responsible to a committee of Congress; another bought food—responsible to a committee of Congress; another bought and dispensed medicine—responsible to a committee of Congress; and so on through the entire list.

These functionalized, bureaucratic, feudal lords did not look to their titular superior, the leader chosen by and responsible to the nation, for powers and policies. They looked to irresponsible committees. And because of the independence which was thus given, each chief built around himself a bureaucratic wall that even the constitutional chief executive himself could not get over or break through without wrecking limitations and provisos that had grown up in statute books as thick as moss on the shady side of a moat. In violation of the spirit of the Constitution, and of every ideal of democracy, Congress had taken upon itself control over each bureau of the administration. It had taken the initiative and the leadership that belonged to the executive in any scheme of responsible government and divided it among over a hundred different standing committees which, sitting behind closed doors, became both the real Congress and the real head of the administration. This was the institutional provision for leadership that existed at the time of the Spanish-American War. And it still existed when we entered into this war against Prussianism—not alone in the national government, but in most of our state governments as well.

That we got out of the Spanish-American War without enormous sacrifice of blood and treasure, and loss of our national

prestige, is due to the fact that a much less effective, moribund leadership had grown up in autocratic Spain. Consider what might have happened to Shafter's 17,000 men if the Spanish army of 196,000 men then in Cuba, more than twelve to one of the American forces landed, had been under the direction of a Foch, a Haig, or a Hindenburg. Shafter debarked his army without opposition, his only loss, caused by accident, being two men and a few mules, and the only difficulty experienced being his lack of debarkation facilities. So destitute was the army of means of landing that it was necessary to throw the mules and horses overboard and make them swim for shore. Although there had been ample time and opportunity for the Spanish generals to have brought their army into action between the 22d of June and the 1st of July, Spanish records show that they had only 9,000 in the vicinity of Santiago. The Spanish soldier proved a good fighter, but he lacked leadership. If he had had good leadership it is thought that it would have taken not less than a half million men and possibly two years to reduce the Island of Cuba. Judged by results at the Battle of El Caney, this seems a conservative estimate. The only reason for our early success in the Spanish-American War was that the enemy was worse off for leadership than we were. Victory came to us by default. But we can look forward to no defaults under Prussian leadership.

Let us follow the Spanish-American War experience a little further, for it is helpful. Let us follow it into the administration of Mr. Roosevelt, who saw and felt the lack of unity of direction and control. As illustrative, let us consider the futility of Mr. Roosevelt's effort to put unity of direction and control into the military establishment—due to a popular appreciation of the need. The enormous cost of the Cuban campaign, short though it was, the confusion and waste on every side, was the reason urged by Mr. Root in 1903 for organizing the General Staff.

Yielding to this influence, an Act of Congress was placed on the statute books. This did not break down bureaucratic walls. Even with Mr. Roosevelt as constitutional commander-in-chief and Mr. Root as secretary of war, these old bureaucratic, feudal monopolies were protected by Congress as true representatives of our old *laissez faire* philosophy of government. These were so firmly intrenched that it took fifteen years and then several months of confusion in preparation for a war which left no doubt

in the minds of the people and their representatives that the military powers must be placed under strong, centralized leadership, before the General Staff was permitted to function effectively.

Mr. Taft felt the same handicap, and through his entire administration he endeavored to have the principal of executive leadership accepted in matters of administration and finance—making the representative body a court of inquest, with powers to enforce its conclusions through its constitutional right to control the purse. The futility of this effort is shown in the treatment accorded to his recommendation of an executive budget procedure. The idea was featured in the press and favored editorially. Only two newspapers opposed it. In a referendum taken by the Chamber of Commerce of the United States, only one trade body voted against it. But what was not seen or understood was that although it would require no constitutional change, as was set forth by the President in his message, it would require a complete change of procedure. Instead of having the machinery of Congress so geared up that the initiative in matters of administration and finance could be divided among over a hundred irresponsible committees, it must come from a responsible executive, the administration itself—leaving Congress free to review, criticize, discuss and finally to approve or disapprove the acts and proposals of those whose duty it was to render public service. Mr. Taft proposed that the president and the cabinet should take the initiative and then stand the test of open public questioning, criticism, and discussion before Congress, thereby making the president and his cabinet responsible for every measure which they considered essential to the adjustment of the working machine. This done, Congress would be free to hold the executive to account.

Since this was a frontal attack on the system of "government-by-congressional-committee," and the entrenched bureaucratic autocracy that had grown up under it (a system that had been inducted with the consent and approval of the people for the purpose of making the executive weak), Congress assumed that the country would not support the proposition to give the initiative to the cabinet, while Congress made it responsible through their power to control the purse. The Constitution admitted of such a practice. But opposed to it was more potent habit—a habit which could not be changed without a mandate from the people.

The recommendations of President Taft for the introduction of an executive budget procedure were received by members of Congress with an air of patronizing superiority. When President Taft showed the seriousness of his purpose by issuing an order to the members of his cabinet to prepare such a budget, a clause was injected as a "rider" on a deferred appropriation bill passed in August 1912, the intention of which was to prohibit it. This "rider" was slipped into the bill in the committee room, and so deftly was it done that few members of Congress knew that they were voting for a proposal aimed to prevent the president from doing what he claimed to have a constitutional right to do.

President Taft, however, did not falter. He issued a letter to Mr. McVeagh, as Secretary of the Treasury, stating that this rider could have no force as against the constitutional right of the president. Then he asked the cabinet to proceed to make a budget as requested. After various interferences and delays, due to the attitude taken by congressional committees, a budget was submitted. It was promptly consigned to a pigeon-hole in the thought that it would be lost sight of. It was published, however, at the expense of the president's appropriation, and has been at work every day since—out in the back country among the people. So firmly has it taken hold on the minds of thinking men that it promptly became an issue in every state in the Union, over forty of them having passed laws relating to it. Furthermore, in the last presidential campaign, it found expression in the platform of each of the leading political parties.

In all these laws, however, this thought has failed to take hold: that a budget is only a procedure for holding an executive responsible by forcing him to come forward, tell what he has done and for what he asks support in the future; that there can be no such thing as a budget so long as the initiative in matters of finance and administration is in one or more legislative committees. All that the people can hope to get is a committee report, after practically all the decisions have been made, with little or no opportunity given for inquiry, criticism and discussion which will reach the people. What is called a "legislative budget," as has been shown in the state of New York, is simply a more orderly way of conducting "invisible government."

President Taft strongly urged also that the executive be permitted so to organize the administrative offices and bureaus as to

enable him to discharge his responsibility to the public—to carry on the business of the government with a minimum of waste. But it was not until the life of the nation hung in the balance, and every human and material resource was plainly needful to turn the scales in its favor, that the idea that national economy and governmental efficiency were desirable began to be taken seriously.

Mr. Wilson has done much to prepare the way for responsible leadership. He was one of the first American writers to point to the fact that practically all initiative had been taken over by standing committees of Congress, thereby leaving the executive a negative force. As governor of New Jersey he stood for executive leadership. When he became president he upset the traditions of a hundred years by appearing personally before Congress to discharge his constitutional duty of addressing them on the state of the Union. And when it became apparent that the committee system must be abolished to enable the executive to give unity of direction to the many commissions, bureaus and offices which were required to co-operate in the prosecution of the war, he assumed personal responsibility for the Overman Bill giving to the president the power to reorganize the machinery of administration.

This power was finally given, as a war necessity. The bill was passed. But note the reservation. It was passed with an apology and a promise that after the war is over Congress will again take the initiative out of the hands of the executive and replace it in the hands of a hundred or more irresponsible committees of the representative branch. With all the appeals which have been made to the public, with all that has been said about the necessity for national economy, there are still Americans who insist that inefficiency and waste are the price to be paid for democracy—that we must choose between this and autocracy. If this conclusion is accepted as a principle for future action, the days of American democracy are numbered. That weakness and waste are not essentials of democracy, France has amply proved. France has proved that democracy can be strong. Great Britain has proved that popular control over political leadership is not incompatible with strength.

This brings us to our second point of institutional weakness. Strong, responsible leadership, as a means of developing an efficient public service, is not the only part of the mechanics of

democracy to which attention should be given in this time of war stress. Wastefulness is not necessarily a fatal national vice. Except when confronted by threatened invasion, we may still be slothful and survive. We may even continue to feel superior about it so long as brave France and efficient Japan stand as buffers on either side of us against the spread of Prussian aggression by land, and Great Britain spreads its protecting wings over the seas, What must prove our fatal institutional weakness, unless it is overcome, is irresponsible criticism and publicity.

When Congress gave over to its committees the initiative in matters of finance and administration, it unfitted itself to act as an independent forum. It introduced what has come to be known as invisible government—leaving to the people only irresponsible agencies through which to keep informed. Unless we provide the means whereby public opinion may have accurate knowledge of the facts and conditions which must be taken into account in determining whether one measure or another, or one leader or another, shall be supported; unless the electorate, as a jury before whom public administrations are tried, can act on evidence instead of mere allegation and persiflage, on material facts instead of demagogical appeals to prejudice and popular passion—our democracy will rest on no firmer a foundation than does the democracy of Russia.

We do not impugn the high moral purpose of the Bolsheviki. We do question their intelligence. What has wrecked the machinery of administration in the hands of Russian democracy was not its own weakness and wastefulness; nor was it lack of means for making its leadership responsible. Russian democracy failed because it failed to develop a procedure which would insure to the people and their leaders political justice, with the result that the enemies of the state, the enemies of democracy, by processes of cunning and cant, used the right of free speech and free press, so long denied, to poison the streams of public thought. It was irresponsible criticism and publicity that first undermined confidence in the public service—inciting acts of violence which operated to destroy the only instruments the people had, either to protect themselves against Prussianism or to conserve their own welfare.

Democracy has stood for justice, a justice which rests its judgments on commonly accepted standards of morality. With a voice

of protest it has stood against the acts of autocracy when these acts have violated individual rights. It was in behalf of private justice that its voice was first heard. Five hundred years ago it was heard in England, and first King John and then King Henry was forced to sign a pact that "No free man shall be taken or imprisoned, or disseized of his freehold, or his liberties, or his free customs, or outlawed, or exiled, or anyways destroyed, nor will we go upon him nor will we send upon him, unless by the lawful judgment of his peers." The first charter of liberty in America, the old charter of 1641 of Massachusetts, provided that "no man's life shall be taken away, no man's honor or good name, shall be stayned" unless by due process of law. The Declaration of Independence gave as one of the reasons for revolution, "depriving us in many cases of the benefits of trial by jury." Approval of our federal Constitution was withheld until assurance was given that in a Bill of Rights would be added:

In all criminal prosecutions the accused shall enjoy the right of a speedy and public trial by an impartial jury, and be informed of the nature and cause of the accusation; to have compulsory process for obtaining witnesses in his favor; and to have the assistance of counsel for his defense.

Since the days of Magna Charta one of the most sacred things in the upbuilding of institutions for private justice has been a procedure which will insure to the defendant party and to the people, through a representative jury, that judgments rest on fact and not on assumption of power. The underlying purpose of creating a representative branch of the government was to give to the people and their servants the right of inquest and trial in all controversies having to do with matters of common welfare. But in our intense individualism we have overlooked that fact that we are quite as much interested in political justice as we are in private justice; that democratic government must work through human agencies; that the life of the state depends on the powers of its leaders to organize; and that powers of leaders depend on the continued confidence and good will in which the people hold them.

When an accusation is made that a public officer has been inefficient in management of a public trust, and wasteful of public funds, this is quite as much to be considered a charge of "infamous" crime against democracy and against the state as information and complaint of injury to private property. The state

is quite as much interested in any act or proposal of an authorized executive which bears on a matter of public policy as it is in the properties or interests of individuals. If a person accused of doing injury to life or property is entitled to the protection of "indictment by a grand jury," "the right of speedy and public trial by an impartial jury," "the right to be informed of the nature and cause of the accusation," "to have compulsory process in his favor," and "to have the assistance of counsel" before he can be marked by the public press for popular disfavor and penal discipline, even greater is the need for a procedure which will give to the people and their servants protection from false accusations of the designing and the selfish.

It was the fair intent of our Constitution that the representative branch should be a court of political justice. Massachusetts still calls her representative branch her general court. What we have lacked is not an agency of political justice, but a procedure which will keep the representative body as a grand jury from becoming a party in interest. By permitting Congress to take the initiative we have consented to making it unfit. We have deprived ourselves of the means of independent inquiry with the benefits of counsel. This, and a public consciousness that when accusation is made against a public officer the life of the state and its material interests are being threatened, lie at the foundation of democratic control. Any charge made against persons chosen for positions of public trust is a matter which should be brought before a responsible tribunal. This is not a matter to be bandied about by scandal-mongers and irresponsible persons, and given currency under assumptions of constitutional guarantees of the right of "free speech and free press."

When we have adequate means for inquiry, discussion, criticism and publicity in a duly constituted court of political inquest, before the bar of which those who are responsible for executive leadership are required to come and give a full account of themselves; when this court has the power to enforce its judgments by control over the purse, subject only to an appeal to the electorate, we need not fear. Without such a court of political justice, "free speech" and "free press" may be quite as much a menace as a means of protecting our liberties. In fact, no one can be free who is at once ignorant and unjust. Under our present institutions we have no way of knowing whether our information comes from a "free press" or is only an "equity of re-

demption" that is speaking to us through editorial and news columns.

To make this point quite clear, let us picture Mr. Wilson, through his cabinet, exercising the powers recently given under the Overman Act, reorganizing our national bureaucracy so that we may develop the full strength of our manhood and the most economic use of our great national resources for winning the war. This will necessarily take time, but he makes a vigorous beginning—and December next he comes before Congress for more money.

Let us picture Congress doing its part as a court of inquest, a jury made up of representatives of the people. As such they organize, so that they may find out whether Mr. Wilson's cabinet is composed of men who are to be trusted as executives in this great emergency. They organize by appointing an auditor-general with an adequate critical staff, to review, approve or disapprove each business act of the administration currently; and to report independently to Congress. They create a joint recess committee on finance and administration, whose membership is made up of the most competent critics in matters of this kind, and whose chairman is selected by those who do not agree with Mr. Wilson in matters of policy—the opposition. Senator Chamberlain heads the committee, which proceeds at once to prepare for the next session. Then Congress adopts a procedure which requires that the budget and all other measures proposed by the president and his cabinet shall first be taken up in a joint Committee of the Whole with the cabinet present to explain, discuss and defend. In order that there shall be a real trial, a real inquest, in order that fullest discussion and publicity be given under constitutional guarantees of "free speech" and "free press," they provide that the opposition may be permitted to select special counsel for leadership in the Committee of the Whole, in addition to the regular party whip. To persons selected as counsel are given such powers before the committee as will enable them to manage the case of the opposition against the administration before the Committee of the Whole sitting as a jury.

The cabinet has been preparing its case for weeks before Congress meets and the request for more funds is made. The members of the cabinet have kept in touch with what has been going on—having in mind that they will be called before the bar of the House. They have met together and in confidence decided what

"the Administration" will stand for as a matter of public policy. They have organized their leadership, both in the cabinet and on the floor. They are ready to explain and defend every act and proposal.

The opposition is also ready. The recess Committee on Financial Administration under opposition leadership, with power to subpoena witnesses and documents, assisted by the auditor general's staff organization, has become familiar with every act, with each item in the bill of particulars before it, and with the methods used by the administration in estimating future needs. It has prepared a report on aircraft construction; on ship-building; on purchasing equipment and supplies. Opposition leaders have become familiar with this and with the report of the auditor general.

Congress meets, and the opposition select Mr. Roosevelt, Mr. Taft and Mr. Hughes as special counsel. Two or three weeks are given to counsel for the opposition to study their case and arrange the strategy of the inquest, so as to bring out every fact and reason opposed to the plan of finance as proposed. They are also given a chance to request the preparation of any further statements of fact needed by the opposition.

The day of trial comes; the press tables are crowded; the galleries are full; Mr. McAdoo presents the application for funds in a budget speech. After he has finished, Mr. Roosevelt rises and interposes a demurrer—he moves "that the committee rise and report against the application of the administration for more funds." He argues "that this action be taken without going into their plans for the future in detail, for the reason that the cabinet cannot be trusted; that it has been weak and wasteful in time of great national stress; and that it is now trying to muzzle the press to cover up its mistakes of omission and commission."

The effect of this procedure on the country is electric. In case the motion prevails, there will be no other recourse than for President Wilson to reorganize his cabinet—to appoint persons who together will command the support of a majority. The proceedings of Congress at once have a news value as great as a cable from Pershing of a threatened break in the Western front; and the public is not reduced to reading the attacks of irresponsible persons on the administration.

If, after the hearing on Mr. Roosevelt's motion, it is denied, then follows the review and consideration of the administration

program. The budget is taken up line by line, and an informal vote is taken on each department. This new organization and procedure puts an end to "invisible government." It puts an end to irresponsible criticism and publicity. It enables the executive to develop strong leadership, and through giving to the people and their representatives the benefit of inquest, criticism and decision by a responsible representative deliberative body it makes strong leadership subservient to the will of a majority.

This is a popular rendition of what happened in 1866, when Mr. Gladstone, responsible for the administration of the affairs of Great Britain, with a view to keeping a majority back of him and protecting himself and his cabinet against irresponsible criticism, obtained the passage of a law by Parliament setting up just such an organization and procedure. His view was that the best way to meet opposition was to force it out into the open; to give it the fullest opportunity to know the facts and to present them in a duly constituted forum of the people.

Every country which has "responsible, visible" government has adopted a procedure for making its representative body a court of inquest for the people. We Americans first weakened our executive, then deprived ourselves of a means of responsible criticism. We violated the principle of separation of powers, by taking the initiative in matters of finance and in matters of administration from the executive and turning it over to Congress. Congress and our state representative bodies, using the same method, have done the natural thing—instead of performing the functions of a court of inquest, they have applied "gag rule." We wittingly deprived our administrations of unity of plan and action. We unwittingly deprived ourselves of the means of responsible inquiry and criticism, thereby making the people distrustful of all our public servants—ready to listen to any person who has the wit to commercialize attacks made on those who have risen to positions of trust and whose names have news value. The more unscrupulous the person making the attack under our system, the greater the personal advantage.

To resist Prussian aggression, democracy must become efficient. There is no way of making an inefficient democracy safe in the world. But democracy can neither be efficient, nor can it protect itself against the autocracy of a misguided public, so long as the good or bad opinion in which the government is held is formed by irresponsible publicity.

EXECUTIVE LEADERSHIP IN A DEMOCRACY¹

R. FULTON CUTTING

Chairman, Board of Trustees, Bureau of Municipal Research

ECONOMY is a rather dry subject in normal times. Budget making, accounting, business organization, does not appeal to the imagination of the electorate, but there are epochs in the country's history when they assume a supreme importance that gives them a dramatic interest. We are living in such an epoch today. The courage of our soldiers and the inventive genius of our scientists will not be adequate to win the war unless we are supported by financial ability and resourcefulness. The Federal Reserve Bank Act came just in time to make the great resources of this country available, but the employment of those resources and the conservation of them are still controlled by methods so archaic as to preclude any successful efforts at economy and efficiency.

There seems to be only one end to which all the ingenuity of our people today is given, and that is the increasing of the public revenue. We are forever seeking new expedients in taxation. We do not need more money so much as we need to use it aright. It was only a very short time ago that at an address in this city a representative of the national government is reported to have said, "We will tax the rich man more and more until he has very little left." That sort of shallow Bolshevik thinking is too current, and it will continue current until the intelligence of this great country comes to appreciate what a menace to democracy and civilization there is in financial recklessness. It may be true, of course, that the recklessness of the national government and of our governments all over, has been due to private improvidence. We have been a wasteful people, we have had money to burn and we have burned it, but we have now come face to face with a realization of the fact that the ultimate cost of this great war must be paid out of our private savings. We cannot go on placing our liberty loans and issuing city bonds in the hope that they will be

¹Introductory address as presiding officer at the National Conference on War Economy, June 5, 1918.

taken until we cut out both public and private waste. We are giving the very best we have in this great struggle for democracy, and we cannot afford to permit a spendthrift disposition of the resources upon which the future of the American people depends. There is no politics in this issue at all. The waste of public money is neither a Democratic nor a Republican peculiarity, its real sources lie deeper than that; it lies in the negligence that characterizes popular sovereignty, for the trouble is that our people pay no attention to administration after they have once elected a candidate for office. This sort of negligence has been a real misdemeanor in the past, but that misdemeanor will in these times of trial speedily become a felony if not corrected.

Now we cannot load the responsibility for our fiscal misconduct upon the shoulders of officials. The fact is that if the public insist upon the officials using old-fashioned tools and archaic methods and worn-out machinery they cannot expect from them the best productivity. We need new machines as well as trained men. We have not in the past had so large a reservoir as we ought to have had for supplies of trained public officials, nor have our great institutions of learning risen to a realization of the fact that public service is a profession. It is true that the uncertain tenure of office has operated to discourage to some degree preparation for public service, but the merit system has in large measure corrected that, and the growing demand throughout the country for qualified men will correct it further. It is time that the great institutions of learning seize this opportunity to measure up to their responsibility by graduating men equipped to make governmental administration scientific, practical and efficient. But however efficient an administrator may be he can always learn a good deal from the talents and the experience of his fellow citizens. In the past our people have been altogether too prone either to give to their administrators an irrational and often unmerited adulation, or an equally irrational and unmerited condemnation. The time has come when the citizen must learn to co-operate with his administrator, and to give whatever talent he possesses to making that administrator successful, no matter who he is or what his politics are. To this end Chambers of Commerce, Boards of Trade and other civic agencies should regard it as part of their functions in representing citizenship to give to

their local administration the value of the services of organized effort.

This is no time for us to criticize unless we criticize temperately, informedly and justly. It certainly is no time for us to condemn unless we find that officials are absolutely recalcitrant to every friendly offer of co-operation and absolutely deaf to every suggestion that may be courteously made. Our duty is to offer co-operation, and experience has shown to us that public officials are ready to welcome co-operation when it is tendered with an open hand, just as they are disposed to reject it when it is tendered with the mailed fist. It is the duty and the function of the citizen to be the co-operator with his administrator. The American electorate has grown into its adolescence, and it is about time that it should abandon the youthful practice of senseless mud slinging. Our campaigns, I trust, will be conducted hereafter upon grounds of policy and common sense, and not of personalities. What is needed more than anything else today, it seems to me, is a careful study by officials of the organization of government, a study conducted in the light of the experience of the best managed private corporations, for in the last fifteen or twenty years very great progress has been made by them in the elimination of waste, and in getting every particle of value out of every dollar spent.

Our governmental framework has been like that of a cottage erected for a family without any provision at all for an increase in the family's size, and to which had been added from time to time wings and stories and corridors and staircases, quite unrelated and inaccessible to one another; while what we want is a structure of the old colonial type, with its broad central hall and adjoining wings, every room accessible to the center, and with every facility for successful operation, so that the responsibility for cleanliness and order and efficiency and economy may be loaded right where it belongs, upon the shoulders of the house-keeper.

In the last half century we have entered upon a new phase of civilization. The English publicists call it the New Democracy. We have commenced and are now going along to an unparalleled degree in using the resources of government and exercising its powers in an effort to solve the great problems that spring out of the disabilities of the poor. The community has begun to realize the responsibility it has for its poorer and weaker members. We

are not socialists, we are simply passing from an age of academic individualism into an age of scientific and rational individualism. We are discovering the possibility of citizen co-operation through the agency of organization. But this policy is a costly policy in money. I have not the time nor the desire to reason out how successful may be the expenditure of money in matters of what they call beneficence, but it can be readily proved that almost every dollar that we have been spending in this city in the past has been of some practical benefit to the community economically. However, it is a costly experiment, and only by a very rigid economy can this movement be accelerated, thereby aiding us to realize the idea of democracy. In this particular time when the pressure of war expenditure is so great, of course the tendency and the desire is to some degree to limit the ministry of mercy on the part of the city. I trust we shall never do anything of that kind, for after all the only way in which we can realize these ideals is by strict economy. We can spend if we will only save.

In the national government today we find the president of the United States summoning to his assistance, his councils, his advice, the greatest men whom the nation has to offer. Perhaps that may be a prophecy, it may be an intimation of what will come after the war, when these men who have consumed so many years of their lives in their own industrial pursuits shall be called upon to advise, co-operate, as they ought to co-operate, with the elected authorities. If that is done, a new era will arise for us, because the large intelligence that this country is possessed of today is an immense reservoir of power and possibility if only drawn upon aright.

EXECUTIVE RESPONSIBILITY AND A NATIONAL BUDGET¹

NICHOLAS MURRAY BUTLER

President of Columbia University

THE business of national government has become so huge and so complex that the sharp separation of the executive and the legislative powers to which we have been accustomed for one hundred and forty years is now distinctly disadvantageous. It brings in its train lack of coherence and of continuity in public policy; it conceals from the people much that they should know; and it prevents effective and quick co-operation between the Congress and the executive departments, both in times of emergency and in the conduct of the ordinary business of government. There is a way to overcome these embarrassments and difficulties without in any way altering the form of our government or breaking down the wise safeguards which the Constitution contains. That is to provide by law, as may be done very simply, that the members of the cabinet shall be entitled to occupy seats on the floor of the Senate and House of Representatives, with the right to participate in debate on matters relating to the business of their several departments, under such rules as the Senate and House respectively may prescribe. Such an act should further provide that the members of the cabinet *must* attend sessions of the Senate and House of Representatives at designated times, in order to give information asked by resolution or to reply to questions which may be propounded to them under the rules of the Senate and the House of Representatives.

Had such a provision been in force during the past generation, the nation would have been spared many an unhappy and misleading controversy. What has sometimes been made public only after the labor and cost of an elaborate investigation by com-

¹With Dr. Butler's permission, this extract from an address on "A Program of Constructive Progress," delivered before the Commercial Club of St. Louis, Mo., Feb. 16, 1918, is included in this volume as his contribution to the Conference on War Economy.

mittee, might have been had without delay through the medium of questions put to a cabinet officer on the floor of the Senate or the House of Representatives. No feature of British parliamentary practice is more useful, or contributes more to a public understanding of what the executive is doing, than the proceedings at question-time in the Houses of Commons. A cabinet officer is in a much more dignified position if he is permitted to answer questions as to his official conduct and business on the floor of a legislative body and to make his reply part of the public record, than if he is interrogated in a committee room as an incident in some general inquiry. Perhaps no single step would do as much as this to restore public interest in Congressional debates, to promote administrative efficiency, and to bring about a just and proper intimacy between the legislative representatives of the people and the people's chief executive agents.

This is not a new question, or one unsupported by high authority; but unfortunately it has never been pressed to a successful issue. The classic document on the subject is the report of a Select Committee submitted to the Senate of the United States on February 4, 1881. That report accompanied and discussed a bill containing the provisions just mentioned, and also outlined certain rules to be adopted by the Senate and House of Representatives in order to make the provisions of the proposed bill effective. This report was a unanimous one and was signed by senators belonging to each of the two great political parties. They are men whose names carry great weight. The signatures are those of Senators Pendleton of Ohio, Allison of Iowa, Voorhees of Indiana, Blaine of Maine, Butler of South Carolina, Ingalls of Kansas, Platt of Connecticut, and Farley of California.

The bill which those senators reported thirty-seven years ago should now be revived and enacted. Their report discussed in elaborate detail both the advantages of the proposed measure and the possible objections to it, including those which might be raised on constitutional grounds. That representative committee argued with convincing force that if, by a line of precedents since the organization of the government, the Congress has established its power to require the heads of departments to report to it directly, and also its power to admit persons to the floor of either House to address it, it would seem to be perfectly clear that the Congress may require the report to be made or the informa-

tion to be given by the heads of departments on the floor of the Houses, publicly and orally.

Were such a custom to be established an almost certain result would be the selection as heads of the great executive departments of men of large ability and personal force, men able to explain and to defend their policies and measures before the Congress of the United States in the face of the whole country. It would also follow that the nation's legislature would be enabled to exercise a more intelligent and a more effective control over the executive departments than is now the case, as well as to render them more intelligent and more effective aid, in the form both of appropriations and of positive law.

Nothing would appear to stand in the way of this most desirable advance except our national political inertia, which always serves as a powerful obstacle to proposed political reforms. At the present moment, when the nation is making an unprecedented effort and when Congress is providing for loans and for taxes that are colossal in amount, and when new problems of far-reaching importance are constantly arising, it would be an inestimable public advantage were such a relation between the heads of the executive departments and the two Houses of Congress already established and in force.

If there is to be better and closer co-operation between the executive and the legislative departments of the government, and if that co-operation is to result in the largest practicable public benefit, there should be no further delay in agreeing upon a national budget system. The arguments for a budget have been presented many times and they are as convincing as they are familiar. The platform of the Democratic party adopted at St. Louis in 1916 and the platform of the Republican party adopted at Chicago in the same year, both declare explicitly for a budget system. It is hard to see why there should be any time lost in introducing it into the operations of our national government in view of the great advantages that must certainly follow.

In our form of government the Congress is made responsible for determining what work the government shall undertake, what form of executive organization shall be established to carry on this work, and what amount of public funds shall be provided in general and in detail for the operations of the government, as well as how those funds shall be raised. Since no money may

be drawn from the treasury but in consequence of appropriations made by law, a proper budget becomes the instrument of legislative control over the public administration. It is for Congress to determine what shall and what shall not be done, what shall and what shall not be undertaken. All experience proves that if what is to be done is decided in haphazard and desultory fashion, or in response to the unco-ordinated recommendations of a hundred different administrative officers, there will be waste, duplication of effort and ineffectiveness. To escape these and to enable the Congress and the country to hold the president and his administration directly and fairly accountable for public policies, alike of omission and of commission, the president should himself be called upon to present each year to the House of Representatives a definite and well-analyzed estimate of those proposed expenditures which the administration wishes to support and to make its own. It should be within the power of Congress to reduce or to strike out any of the items of this proposed expenditure, but the Congress should voluntarily relinquish or hold in abeyance—as it might readily do by a joint rule—its constitutional power to increase or to add to these items. Moreover, the president should explicitly recommend the ways in which the moneys necessary to meet the proposed appropriations are to be raised. If the Congress accepts these recommendations, it makes the policy of the administration its own; if it departs from them, then the Congress publicly and of record assumes the responsibility. This makes for publicity of action and for responsible democratic government.

Everything of importance relating to a national budget is to be found in the report of the Commission on Economy and Efficiency presented to the Second Session of the Sixty-second Congress on June 27, 1912. Happenings since that time have only served to strengthen the arguments that were used in that report. If the Congress is really to understand what the president and his administration wish to do and how they wish to do it, and if the people are to be in a position to hold the president and the Congress responsible for their several acts and policies, there must be established a national budget prepared and recommended by the chief executive. Every year's delay in bringing this about increases governmental confusion, inefficiency and extravagance, and postpones the possibility of a simpler, a better-balanced and a more effective administration of the public business.

VIRGINIA WAR ECONOMY AND BUDGET SYSTEM¹

LEROY HODGES

Aide-de-Camp and Secretary to the Governor of Virginia.

While the war-making power is reserved to the federal government by the Constitution of the United States, the strength of the nation in times of war as well as in times of peace is in proportion to the economic strength of the component states, and no greater. In any discussion of national war economy it is therefore eminently fitting that the war-time economy of the individual states should be considered. In this era of unprecedented nationalization and centralization of federal authority, the source of this vast power should not be overlooked.

We are told that the three factors which will win this war are money, men and food. The money which we are now spending in unlimited sums must be secured in the several states; our magnificent army of 5,000,000 men must be recruited in the states; and the food required to maintain ourselves and our Allies must be produced in the states. Having, under the stress of war, forged "the nation whole and complete," it is pertinent that we inquire just what the individual states have done to increase local administrative efficiency and place their economic assets on a war basis.

In Virginia sweeping administrative reforms have been undertaken in the state government in order to place public affairs on a basis of efficiency and economy to meet the demands of the war. A state council of defense, with very broad powers conferred by an act of the general assembly, has been appointed by the governor and placed in entire charge of all war activities in the state. All other state and local defense bodies are made subordinate to the Virginia Council of Defense, which, by law, is charged with the work of "co-ordinating the material, intellectual and moral forces of the commonwealth in the patriotic work of aiding the nation in its war for humanity." A most comprehensive workmen's compensation law also has been passed which creates a full-time salaried industrial commission with extensive powers. One of the most elaborate systems for the prevention and control of tuberculosis in any of the states has also been established, for the support of which the general assembly has levied a special tax and made large direct appropriations. Provision has also been made for the elimination of commercialized vice in the camp communities of Virginia, and the control of venereal diseases in the neighborhood of the military and naval cantonments is being handled as a medical rather than as a legal problem. The chief feature in Virginia's program of war economy, however, is the modern executive state budget law recently enacted by the legislature, which will establish complete co-ordination of revenues and expenditures and insure greater executive supervision and control of all state affairs.

¹Discussion at the National Conference on War Economy, June 6, 1918.

After a careful study of ways and means to place the government of Virginia on an efficient "war" basis by the Virginia Commission on Economy and Efficiency, the conclusion was reached that the one thing that more than anything else would place the state government on a more business-like basis and enable it to function more efficiently in meeting the demands of the war would be the introduction of a modern budget system. The commission accordingly drafted a budget law and embodied it in its report to the general assembly in January. With the approval and support of Governor Westmoreland Davis, who was inaugurated on February 1, this law was introduced as a bill in both houses of the assembly and promptly adopted. In the senate it received only two dissenting votes, and in the house not a single vote was cast against it. The act was approved by Governor Davis on February 19, 1918, and will take effect on June 21, 1918. With the enactment of this law Virginia has cast off the shackles of the hopelessly unbusiness-like and inadequate method of handling its financial affairs by the sixty-day legislative committee method, under which the same legislature that passed the new budget law made excess appropriations amounting to nearly a million dollars, unknown to any of its members. In fact, the general assembly of 1918 adjourned after adopting a general appropriation act authorizing expenditures during the 1918-1920 biennial period of more than a million and a quarter dollars in excess of the estimated revenues for the same period, which forced the governor to recall the assembly to reduce the appropriations within the revenues in order to avoid the deficit.

Such a situation could not have arisen under the new budget system, for the law places ample safeguards over the treasury, and places definite responsibility on the governor, who is constituted "chief budget officer of the state," to frame an intelligent financial policy for the conduct of the state's business. The Virginia budget law requires that every two years all state agencies shall report their financial needs to the governor in itemized form before the first of November preceding the January meeting of the general assembly. These estimates must be filed with the governor in the form prescribed by him. For inclusion in the budget without revision by the governor, the auditor of public accounts is required to furnish him with an estimate of the financial needs of the general assembly, to be certified and approved by the presiding officer of each house, for each year of the ensuing biennial period; and a like estimate of the financial needs of the judiciary, as provided by law. These estimates from the auditor must be accompanied by a full and detailed explanation of all increases and decreases. At the time these estimates are filed with the governor, the auditor of public accounts is also required to furnish him with certain specified information regarding expenditures, revenues and cash balances, prepared in accordance with the budget classifications adopted by the executive. He must also file with the governor an itemized and complete financial balance sheet for the state at the close of the last preceding fiscal year, and such other statements as the governor shall request.

In addition to the governor's constitutional authority to "require information in writing, under oath, from the officers of the executive depart-

ment and superintendents of state institutions upon any subject relating to the duties of their respective offices and institutions; and to inspect at any time their official books, accounts and vouchers," the budget law gives him authority to call for and have furnished to him promptly any information he may desire in relation to the affairs of any state agency. The budget law further provides that every two years the governor must make a careful survey of all state departments and institutions in order to possess a working knowledge upon which to base his recommendations to the general assembly. He is empowered to employ competent assistants in conducting these biennial surveys.

When these data have been received, the governor is required to hold public hearings, during the month of November preceding the meeting of the legislature, on all estimates to be included in the budget. Within five days after the beginning of the session of the general assembly, the governor must submit his budget, accompanied by specified supplementary financial statements, together with a general survey of the state's financial and natural resources and a review of the general economic, industrial and commercial conditions of the commonwealth.

Obviously, the Virginia budget law provides adequate facilities for the governor to acquire definite information for the preparation of an intelligent work program. He can indicate to the general assembly exactly how and for what purpose the money asked for will be spent. Moreover, he is required to show the general assembly just how and from what sources he expects to secure the revenues required to carry out his program.

It is mandatory that the governor shall accompany his budget estimates with a tentative bill to be known as "The Budget Bill." Within five days after he has submitted the budget the law requires that the standing committees of the house and the senate in charge of appropriation measures shall sit jointly in open sessions to consider the governor's estimates. This provision makes it possible for any department or individual to appeal from the governor's allowances and secure a hearing before the legislative committees. The governor, or his representative, and the governor-elect, however, have the right to sit at these hearings and be heard on all matters coming before the joint committee. The committee can check the governor's estimates, if it so desires, by causing the attendance of department heads and other state officials.

The constitutional rights and functional prerogatives of the legislative department are not infringed under the Virginia law, for "The General Assembly may increase or decrease items in the budget bill, as it may deem to be in the interests of greater economy and efficiency in the public service, but neither house shall consider further or special appropriations, except in case of an emergency, which fact shall be clearly stated in the bill therefor, until the budget bill shall have been finally acted upon by both houses. All bills introduced in either house, carrying appropriations, shall be itemized in accordance with the classifications used in the budget." As will be seen, this provision forces an early consideration of the administration's work program, directs attention to the financial needs of the state and to the condition of the treasury; and checks the flood of local and "political"

appropriation measures until after the general assembly has had an opportunity properly to consider and provide for the constructive and vital business of the state.

Aside from the powers conferred on the governor under the budget law, his constitutional veto power is unaffected. The Virginia constitution provides that "The governor shall have the power to veto any particular item or items of an appropriation bill, but the veto shall not affect the item or items to which he does not object." If the governor does not approve of a bill, or "If he approves the general purpose of any bill, but disapproves any part or parts thereof, he may return it." In the first case, a two-thirds vote, if the number of members present include a majority of the members elected to that house, is required to pass a bill over the governor's objections, or to re-insert an item in the appropriation bill after it has been vetoed by the governor. In the second case, a majority of the members present can refuse to change a bill in accordance with the governor's recommendations, whereupon the bill can be acted upon by the governor as if it were before him for the first time—*i. e.*, he can either approve or veto the bill as he may desire.

A close study of the budget laws in the several states clearly reveals the many advantages of the system created by the Virginia law. Our law provides a simple, direct and business-like method of handling the public affairs of the state in a conservative and constructive manner. While we have under way a number of administrative reforms made necessary by the war, our budget law forms the keystone in Virginia's program for war economy.

EXECUTIVE LEADERSHIP IN A DEMOCRACY DISCUSSION¹

RICHARD S. CHILDS, President, National Short Ballot Organization: Our legislative bodies in America, both national and state, are chaotic in their management compared with the parliamentary bodies of Europe, and it is because they lack anything which can properly be described as even approaching a ministry. We think of a ministry as something that concerns countries that have kings and crowns, but we should have in this country something comparable thereto in order to give a spinal column to our legislative efforts.

Let us therefore formalize existing practice and procedure. At the present time, every governor, every president has his kitchen cabinet, composed of certain leaders of the legislative body in whom he has confidence. He deals with those men unofficially, almost in a secret manner, as if it were something of which to be ashamed. Through the medium of those trusted friends in the two houses he deals with his legislative body. Let us carry that existing and necessary practice a step further. Formalize it, set it up, with good reason behind it, as a thing to be recognized by all men, and call upon our chief executive to select from the two houses of the legislature a group of leaders who are able to work acceptably with him, and who are acceptable to the two houses of the legislature. Let him meet with this legislative cabinet once a week or as often as the work may require. Let him thus sit down with half a dozen members of the legislature and with them formulate the party policy for the session, set before the legislature its annual task and determine what bills shall be called administration bills with the prestige of the governor behind them. Let this legislative cabinet be the body to prepare and put before the legislature each year the "administration measures." Can you not see that to be a member of the governor's cabinet, this legislative cabinet, would give certain members of the legislature more authority on the floor and establish their leadership as being consistent with that of the governor? At present we have three leaderships: the governor with his messages and his power to get publicity; the leaders of the upper house; the leaders of the lower house—three separate leaderships.

Let us bring them together into a committee, consolidate them, and all three forces will gain effectiveness. It is necessary, however, that the governor should select them, and not have the individual houses elect them, because it is absolutely necessary that such a body shall be harmonious, and as the governor is a fixed point, we have to let him pick the members of such a committee from the two houses.

No legislative body has ever been a success without an arrangement

¹Before the National Conference on War Economy, June 5, 1917.

very much like that. With it, I believe we should soon get into a condition where the main measures to be put through each year would be the product of that committee, aided as it would be by all the resources of the governor's administrative staff.

Its legislation would be scientific, and against that legislation the bill that is proposed by the farmer from some remote village, written by a lawyer at home, amended and mutilated in some committee of the legislature, and jammed through one house on sentiment regardless of facts and science, would have no chance whatever. More and more the leadership would follow the main track that is created, and the rank and file of the legislature would fall into the position for which they are ideally fitted, that of being pure representatives, passing the bills in review and acting on them in accordance with the views of those they represent. That is their function. Keep them to it, and the present legislators will make good for all of us.

WILLIAM P. BURR, Corporation Counsel, New York city¹: Here in the City of New York we are confronted with extraordinary conditions with regard to the questions of the subway contracts. Here is a great work practically completed, and yet threatened with abandonment unless some relief can be extended to the men who have engaged to build this great work, in view of the conditions which did not confront them at the time when the contracts were made. The increased cost of materials, the higher rates for labor must all be adjusted, or these men may go into bankruptcy, and the great project fail. That is one of the questions which come up and must be solved. Can it be solved by allowing these men to abandon the contracts, or will it be solved by continuing the contracts with the city acting as the banker to advance the money before the payments are due in order to enable them to carry on this work? So also with the railways. Shall the rates of fare be increased? Should they be increased in view of the contractual relations which have existed for years and under which the franchises were originally obtained? Will the price of gas go up because of the higher price of the commodities that go into its making? Must the general consumers meet that condition and pay the higher rate, notwithstanding the fact that the rate is fixed by statute? Must these increased expenses be met by the companies or by the citizens?

All these complex municipal questions must be met by intelligently directed public action. This can only be effected if we are alive both to the needs of our own city and the magnitude of our national task.

¹In presenting the greetings of the City of New York to the National Conference on War Economy, June 5, 1918.

THE BUDGET AS AN INSTRUMENT OF POLITICAL REFORM¹

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THE first step toward the accomplishment of any object, or the solution of any problem, is to secure a clear idea of the precise nature of the object sought, or the terms of the problem to be met. It is a remarkable fact that, great as is the attention which has been given during recent years to the subject of budgetary reform in the United States, only slowly has the full significance of this reform, or of the steps necessary for its complete accomplishment, been appreciated, even by those who have been actively promoting it.

At first, the adoption of a budgetary system was looked upon as but an improved procedure in the raising of revenue and the voting of funds for the support of the government and its various activities. The more this proposed reform has been studied, however, the more has its support become apparent. It is now seen that, if fully adopted, it will go a long way toward the removal of many of the most serious defects in our governmental machinery as at present constituted and operated, and will, therefore, profoundly affect our whole political system.

The time has fortunately passed when our system of government is looked upon as representing the last word in political organization. Though we do not question the validity of the fundamental principle of popular government upon which our political system rests, it is recognized that, notwithstanding more than a century of experience, many of the problems of making this type of government efficient still remain to be solved. Among these problems first place may be given to the following: the perfection of means through which popular control over the conduct of governmental affairs may be made effective; the more satisfactory determination of the functions of our legislative bodies in respect to the direction and control of administrative affairs; the

¹Read at the National Conference on War Economy, June 6, 1918.

similar determination upon a more satisfactory basis of the function of our chief executive in administrative matters; and, as a necessary collateral problem to the last two, the determination of the relations that should exist between the chief executive and the legislature, on the one hand, and subordinate administrative officers on the other, in respect to this branch of government.

These problems have to do with those features of our government which, by almost common consent, are the least satisfactory of our political institutions, are primarily responsible for the failure of our government to give satisfactory results in practice; and, what is of direct concern to us here, are such as the establishment of a proper budgetary system, more than any other single device, will tend to solve.

It is hardly necessary to point out that the popular will cannot be intelligently formulated nor expressed unless the public has adequate means for knowing currently how governmental affairs have been conducted in the past, what are present conditions, and what program for work in the future is under consideration. Of all means for meeting this requirement none approaches a properly prepared budget in completeness and effectiveness. It at once serves to make known past operations, present conditions and future proposals; definitely locates responsibility; and furnishes means of control. Too much emphasis therefore cannot be placed upon the budget as an instrument through which real democracy may be achieved.

Regarding the function of the legislature in respect to conduct of administrative affairs, the conviction has been steadily growing that we have erred in making our legislative bodies boards of directors to concern themselves with the details of the activities, organization and methods of business of administrative service. The true function of the legislature should be to act as an organ of public opinion in the larger sense, and as the medium through which those concerned with the actual administration of affairs should be supervised, controlled and held to a rigid accountability for the manner in which they discharge their duties.

John Stuart Mill in his *Essay on Representative Government*, published in 1861, has a remarkable chapter entitled, "Of the Proper Functions of Representative Bodies." After pointing out that there is a radical distinction between controlling the business of government and actually doing it, and that the latter is

a task which no numerous assembly should attempt to perform, Mill goes on to say that "it is equally true . . . that a numerous assembly is as little fitted for the direct business of legislation as for that of administration."

"The proper duty of a representative assembly in regard to matters of administration," he continues, "is not to decide them by its own vote, but to take care that the persons who have to decide them shall be the proper persons." And again he says:

Instead of the function of governing, which it is radically unfit for, the proper office of a representative assembly is to watch and control the Government; to throw the light of publicity on its acts; to compel a full exposition and justification of all of them which any one considers questionable; to censure them if found condemnable, and, if the men who compose the Government abuse their trust, or fulfil it in a manner which conflicts with the deliberate sense of the nation, to expel them from office, and either expressly or virtually appoint their successors. . . . This is surely ample power, and security enough for the liberty of a nation. . . . In addition to this, the Parliament has an office, not inferior to this in importance; to be at once the Nation's Committee of Grievances and the Congress of Opinions; an arena in which not only the general opinion of the Nation, but that of every section of it, and as far as possible, of every eminent individual whom it contains, can produce itself in full sight and challenge discussion. . . . Nothing but the restriction of the function of representative bodies within these rational limits will enable the benefits of popular control to be enjoyed in conjunction with the no less important requisites (growing ever more important as human affairs increase in scale and in complexity) of skilled legislation and administration.¹

Nowhere, so far as the writer is aware, has this vital question of the function of the legislative chambers in relation to administration been more clearly and accurately stated. In it is to be found the explanation why the British parliamentary system, which is conducted strictly on the principles there laid down, works so smoothly and efficiently in respect to the formulation and execution of administrative programs, and why our political system, in which these principles do not find expression, gives quite contrary results.

It is one thing, however, to see a defect and quite another to

¹For this statement of Mill's consideration of the proper function of, legislative bodies, the author is indebted to an unpublished manuscript by his brother, W. W. Willoughby.

determine the action that should be taken to remove it. It is at this point that the matter of budgetary reform enters. Manifestly the introduction of a budget system constitutes the most effective means of giving our legislative bodies their true position and function in our political system. In the executive is primarily vested the responsibility for the formulation of a work program and the determination of the agencies through which it is to be put into effect. The legislature will restrict its action to that of general direction, supervision and control.

Closely connected with this question of the re-determination of the function of the legislature in respect to the administration is that of the re-determination of the functions of the chief executive in this respect. In the organization of our governments, national and state, care was taken to make it clear that the president and the governors should in all cases be vested with the executive power. This term "executive power" was not deemed, however, to be synonymous with, or even to include, administrative power. The chief executive was not made the administrator-in-chief of the government. This failure to make the president and the governor the head of the administration is intelligible when we appreciate that at that time the duties of government were almost wholly confined to what are known as the essential functions of government—that is, the enactment and enforcement of law, the maintenance of order, the conduct of foreign relations etc. Only to a comparatively slight extent did they, strictly speaking, perform administrative duties. There was consequently little apparent need for a general business manager who should have immediate responsibility for, and direct supervision over, the conduct of administrative affairs.

Conditions at the present time are radically different. Both our national and state governments are engaged in administrative undertakings of great importance and variety. With this change in the character of their work has come the imperative necessity, if governmental affairs are to be efficiently conducted, for the development of an office of general administration corresponding to that of general manager in a business corporation. There is but one way by which this can be achieved. The chief executive

must be definitely given the status and powers of administrator-in-chief.

Probably the greatest single defect in state governments as they now exist is their failure to provide for this feature. The governor, though designated as chief executive, has been given a position, as it were, outside of the administration. He has little or no direct authority over the conduct of affairs in the several state services and institutions. Only in exceptional cases does he enjoy the appointment of the heads of important administrative services, or the power effectively to control their conduct. For the most part these men hold office through election by the people, or by appointment by the legislature. In general the principle followed has been that the line of authority and responsibility runs directly to the people or the legislature.

This feature of our state governments has the most direct bearing upon the problem of a budget which we are considering. The significant point is that it is impossible to establish an effective budgetary system until this feature of our government is corrected. As long as the governor stands outside of the administrative branch, and has no direct responsibility for the conduct of administrative affairs, and no adequate powers over administrative officers, he cannot formulate a budget that will have the character or carry the weight that it should. Such a document will not be a financial and work program emanating from a responsible administrator-in-chief. It will at best be but a compilation and revision of programs prepared by others, made by an officer standing outside of the fields of administration, and not directly in control of, or responsible for, the manner in which administrative affairs are conducted.

It will be seen from the foregoing that this problem of the establishment of a budgetary system is intimately tied up with the whole great question of the reform of the administrative branch of our state governments. On the one hand, every step toward the establishment of an integrated administrative system means laying the essential basis upon which a scientific budgetary system rests. Such a system is one where all the administrative services are knit together as integral parts of one piece of administrative machinery, at the head of which stands the governor as general

manager, with adequate authority in respect to the appointment, removal, direction, supervision and control over all administrative officers. On the other hand, every step toward vesting in the governor responsibility for a budget tends just so much to accentuate his administrative responsibilities and to establish him in the position of head of the administration. Even though his constitutional and statutory powers in respect to the appointment and control of administrative officers may not be enlarged, the fact that he has to review the latter's requests for funds and has the responsibility of definitely stating what, in his opinion, should be the work program for the year or years to be financed, give to him a moral and actual power over administrative affairs that exercise will tend constantly to strengthen.

It is evident that making the governor head of the administration, or even conferring upon him the duty of formulating and submitting a budget, without changing his general powers in respect to the selection and control of other administrative officers, will enormously increase his effective powers and responsibilities. It is a canon of administrative science that, when discretionary power and authority are increased, a corresponding increase should be made in the means of controlling the manner in which these augmented powers are exercised. If legislatures are to surrender to the executive increased power in respect to the conduct of administrative affairs, they must strengthen the means by which they may assure themselves that these powers are properly exercised.

There are two methods by which this superior direction, supervision and control may be exerted—by specification in advance, or by providing that full information shall be currently available regarding the manner in which the delegated authority is being exercised. Legislatures are being asked to give up the first method of control. If they do so, it is imperative that the conditions stated in the second alternative shall be met. In meeting this requirement lies one of the great merits of a proper budget system. A budget is much more than an estimate of financial needs and means of meeting such needs. It is, or should be, at once a report, an estimate and a proposal. It is the document through which the chief executive as the authority responsible for the actual conduct of governmental affairs, comes before the fund-raising and granting authority and makes full report regarding the

manner in which he and his subordinates have administered affairs during the last completed fiscal period, the present condition of the public treasury and, on the basis of such showing, sets forth his program of work for the period to come, and the manner in which he proposes that such work shall be financed.

It is of the essence of a proper budget system that this document shall be so compiled, and so supported by supplementary analyses and data, that the legislature shall be enabled readily and accurately to pass upon how the governor and his subordinates have discharged the duties of their stewardship. It thus furnishes them an instrument of control which under present conditions is largely lacking.

It is not enough, however, that the legislature shall be thus provided with an instrument through which it can determine how their administrative agents are performing their duties. That body must provide itself with means through which it can effectively make use of this instrument. To do this three things are necessary.

First, the legislature must provide itself with an officer whose duty it is to audit all the accounts of the government and report his findings to it. This feature of having the audit of accounts performed by an officer of the legislature rather than of the executive branch is, it is recognized, one that is foreign to American practice. Consideration will show, however, that it is logical and essential if the legislature is properly to perform its function as a general controlling agent.

Second, the legislature must provide itself with a committee on accounts similar to the select committee on accounts of the British House of Commons, whose duty it shall be to receive the report of the auditor, examine it and bring to the attention of the legislature for appropriate action all cases where the administrative officers have not rigidly complied with both the spirit and letter of the law or have seriously misused their discretionary authority. Unless provision is made for such a body and procedure, there is danger that due consideration will not be given to the auditor's report, and required corrective action will not be taken. This committee should be as nearly as possible non-partisan in its make-up and action. The chairman of the British committee is always selected from the opposition and the convention

is firmly established that all party considerations shall be banished from its proceedings.

Finally, the legislature must make proper provision for the consideration of the budget and for taking the action required upon its proposals. In respect to this, the most important consideration is that responsibility for the consideration of the budget shall be concentrated in the hands of a single committee. Failure to do this will destroy the unity of the budget and thus defeat one of the main purposes of a budgetary system.

This question of budgetary reform is intimately connected with many of the political reforms upon which we place especial stress. For years we have appreciated the need for such fundamental reforms, but have been more or less doubtful as to how they should be brought about. In the development of the demand for the adoption of a budget we have at last devised such a means. The thesis that we have sought to establish is that the adoption of a scientific budget system by each of our commonwealths represents not only a great reform in itself, but will powerfully contribute to the accomplishment of those great measures of political reform which are essential if we are to demonstrate to ourselves and to the world at large that efficient administration can be secured under a popular government.

THE DEVELOPMENT OF THE BUDGET IN ILLINOIS¹

OMAR H. WRIGHT

Director of Finance of Illinois

THE first concerted action taken in furtherance of the establishment of a budget for Illinois is evidenced by the enactment of a law by the general assembly at its regular session in 1913, the measure taking effect on July 1 of that year. This act created a joint Legislative Reference Bureau to be composed of the governor, and the chairmen of the Committees on Appropriations and Judiciary of the senate and the house of representatives.

Quoting from this law, one of the duties of the bureau was To cause to be prepared, printed and distributed for the use of the members of the General Assembly, a detailed budget of the appropriations which the officers of the several departments of the State government report to it are required for their several departments for the biennium for which appropriations are to be made by the next General Assembly, together with a comparative statement of the sums appropriated by the preceding General Assembly for the same purposes.

Under this section, the Legislative Reference Bureau did prepare and publish such a so-called budget, or rather books of estimates, which proved unsatisfactory on account of the lack of executive control, a multiplicity of detail, and the failure to provide the proper authority for amendment or revision.

Subsequently, the fiftieth general assembly enacted a law known as the Civil Administrative Code, effective July 1, 1917, the department of finance being one of the nine new departments created by this law. This department is charged with the responsibility of preparing for presentation to the governor, for him to submit to the general assembly, the first state budget. This is one of the department's most important functions.

It is doubtful if any one subject in state government has received more attention during the past ten years than the question of directing the expenditures of public moneys through the medium of an intelligent budgetary program. So far, little real

¹ Read at the National Conference on War Economy, June 6, 1918.

accomplishment has been registered. Expenditures for public purposes of cities, counties and states have increased approximately 100 per cent in the past decade. Various and intricate methods of indirect taxation have been developed in order to meet this increased outgo. In the final analysis, however, the individual pays the bill, and the larger part of the increase has been raised by the levying of additional direct taxes.

The situation in Illinois has, perhaps, been no worse than that of other states. It is doubtful if it has been better. During the past few years, states generally have made a more definite effort to locate and solve some of these known problems. This effort has resulted in the appointment of many economy and efficiency commissions. Such a commission was appointed in Illinois and made an excellent report to the general assembly on December 1, 1914. Practically all of these commissions have recommended in their reports the adoption of a budget program sufficiently comprehensive to cover both the raising of sufficient revenue and its proper expenditure.

The method developed in Illinois to make revenues equal expenditures has been to fix a state tax levy after the adjournment of the general assembly, sufficient to meet the amounts appropriated, taking into consideration the income from indirect taxation. By the rate so fixed, the extravagance or economy of the administration has been, to some extent, judged.

Among the constitutional provisions bearing on this subject are the following:

1. The supreme executive power shall be vested in the Governor
2. The Governor shall, at the commencement of each session,, present estimates of the amount of money required to be raised by taxation for all purposes.
3. No money shall be drawn from the Treasury except in pursuance of an appropriation made by law.
4. Every bill passed by the General Assembly shall, before it becomes a law, be presented to the Governor.
5. Bills making appropriations of moneys out of the Treasury shall specify the objects and purposes for which the same are made, and appropriate to them respectively their several amounts in distinct items and sections, and if the Governor shall not approve any one or more of the items or sections contained in any bill, but shall approve the residue thereof, it shall become a law as to the residue, in like manner as if he had signed it.
6. All appropriations, general or special, requiring money to be paid out of the State Treasury from funds belonging to the State, shall end with the first fiscal quarter after the adjournment of the next regular session.

The Civil Administrative Code prescribes the duties of the director of finance in connection with the state budget as follows:

Section 37. In the preparation of a State budget, the director of finance shall, not later than the fifteenth day of September in the year preceding the convening of the General Assembly, distribute to all departments and to all offices and institutions of the State government (including the elective officers in the executive department and including the University of Illinois and the judicial department) the proper blanks necessary to the preparation of budget estimates, which blanks shall be in such form as shall be prescribed by the director of finance, to procure, among other things, information as to the revenues and expenditures for the two preceding fiscal years, the appropriations made by the previous General Assembly, the expenditures therefrom, the encumbrances thereon, and the amounts unencumbered and unexpended, an estimate of the revenues and expenditures of the current fiscal year, and an estimate of the revenues and amounts needed for the respective departments and offices for the two years next succeeding beginning at the expiration of the first fiscal quarter after the adjournment of the General Assembly. Each department, office and institution (including the elective officers in the executive and judicial departments and including the University of Illinois) shall, not later than the first day of November, file in the office of the director of finance its estimates of receipts and expenditures for the succeeding biennium. Such estimates shall be accompanied by a statement in writing giving facts and explanation of reasons for each item of expenditure requested. The director of finance may, in his discretion, make further inquiries and investigations as to any item desired. He may approve, disapprove or alter the estimates. He shall, on or before the first day of January preceding the convening of the General Assembly, submit to the Governor in writing his estimates of revenues and appropriations for the next succeeding biennium.

Section 38. The Governor shall as soon as possible and not later than four weeks after the organization of the General Assembly submit a State budget, embracing therein the amounts recommended by him to be appropriated to the respective departments, offices and institutions, and for all other public purposes, the estimated revenues from taxation, the estimated revenues from sources other than taxation, and an estimate of the amount required to be raised by taxation. Together with such budget, the Governor shall transmit the estimates of receipts and expenditures, as received by the director of finance, of the elective officers in the executive and judicial departments and of the University of Illinois.

The department of finance, by reason of its authority to audit vouchers, examine accounts and require reports, will be advised as to the character and amount of the expenditures made by the several departments during the present biennium. It is compiling tabulations and a detailed analysis of such expenditures, during the year ending June 30, 1918, for use in checking up and com-

paring the requests for future appropriations, which will be made by the various activities in the state. However, irrespective of how complete may be the record of past expenditures, or how certain are the present needs, existing war conditions make intelligent budget-making difficult. Retrenchment and economy may curtail outgo in some avenues of state expenditure, but with over 27,000 insane, feeble-minded and incarcerated people in Illinois, all to be humanely cared for, retrenchment can go only so far. At the same time, because of the present abnormal business situation, the importance of careful budgetary procedure is greatly enhanced.

The appropriations made in Illinois by the last general assembly for the biennium beginning July 1, 1917, total approximately \$50,650,000, as follows:

Charitable and penal institutions.....	\$15,325,000
University of Illinois and state normal schools	6,706,000
State school fund.....	8,114,000
Judiciary	1,593,000
Legislative	1,005,000
Defensive	2,501,000
Highway building and maintenance.....	2,526,000
General administrative	12,880,000

Of the total amount appropriated, approximately 30 per cent is for salaries and wages. Our salary and wage problem in Illinois, as well as in the country generally, calls for serious consideration and study. The department of finance plans to submit to the governor, as part of its budgetary program, a recommendation for a classification and standardization of present salary schedules. The widely existing lack of uniformity in the amount of salary paid for the same class of work has caused endless annoyance and has often crippled efficiency in the different departments. As an example, salaries paid accountants range from \$1,500 to \$6,000 per annum. The same wide variation exists throughout the different activities in the state.

The value of state-owned buildings in Illinois is approximately \$25,000,000. Erection of these buildings began in 1845 and has continued intermittently since that time without any regularly ordered building program. Appropriations, covering building needs, have of necessity been made in a more or less haphazard manner. The department of finance, as part of its budget pro-

gram, is now engaged in a detailed survey of all the buildings at state institutions. Reports to be submitted will show date of erection, size, number of stories, kind of material, present condition, and a detailed statement of repair needs. In no other way can building appropriation requests be intelligently determined upon.

Heretofore, the initiative in appropriations has been largely with the legislature. Without the necessary knowledge as to existing conditions and the needs of the various expending agencies, no well ordered method of procedure has been possible. Large lump-sum appropriations have been made in some instances, while the most minute detail has been followed in others. Appropriation bills have frequently been held up until the closing days of the legislature, and then rushed through with little or no opportunity for careful consideration.

The present budget law in Illinois provides for the submission of the executive budget to the legislature soon after it convenes. No reference is made as to procedure. The budget can be referred to regular committees or considered by the legislative bodies sitting as a committee of the whole. The general assembly has the power to revise, amend, decrease, increase or disregard the governor's recommendations entirely, subject, however, to the governor's veto. While the possibility exists for adverse action by the legislature, it is doubtful if it would care to assume the full necessary responsibility under all the circumstances.

It is the intention to develop the Illinois budget into a comprehensive financial program, including the maintaining of accounts, analyzing of expenditures, all leading up to a well founded statement of appropriation needs, together with a study of the sources of revenue necessary to meet such requirements. Under the Civil Administrative Code, a distinct advance has been made in the centralization of authority and responsibility, and to this extent, the practical working out of budget procedure is made possible.

THE NEW JERSEY BUDGET LAW¹

ARTHUR N. PIERSON

Chairman, Commission for the Survey of Municipal Financing of
New Jersey

AFTER seventy years' experience with the Legislative Budget, as the instrument for distributing state revenues, New Jersey has adopted the Executive Budget. The Act creating this budget was passed in the legislative session of 1916. It superseded the Legislative Budget for the appropriations made last year, which became operative November 1 last.

Under the new plan, the controller submits his estimate of the available state revenues, and the departments and institutions submit their requirements in detail to the governor prior to November 15. A full explanation is required for all increases and the needs for extensions or improvements. The requests are tabulated and investigated by the governor's own assistants, who can be well designated as his Budget Committee, although their work is confined to the months of November and December.

During December, the governor conducts budget hearings, after which the budget is fixed. In the opening week of the legislature, he submits the budget with his budget message to the legislature. The budget is then referred to the Joint Appropriation Committee, which sits during the legislative session for further hearings and revisions. The Appropriation Committee submits its final report to the legislature during the week prior to adjournment. The budget thus prepared is passed in February or March and becomes operative on the first of November following.

New Jersey has had but two years' experience under the new plan of budget making, but it has already proved its value as a means for a more equitable distribution of state funds and a better control of expenditures; as such it has many features of marked improvement over our old plan, and will, I am confident, prove an unqualified success, and well worth the work involved in establishing the new system.

¹Read at the National Conference on War Economy, June 6, 1918.

I appreciate it is too early to predict the full measure of success which will accompany our new plan for budget making, but my three years' experience as a member of the Appropriation Committee under the old Legislative Budget plan gives me something of an insight into its shortcomings and possibly I may be pardoned for pre-judging in a measure the benefits which may be expected from our Executive Budget.

In my first year's service on the Appropriation Committee, this committee was composed of three lawyers, one physician, one farmer, two insurance agents and two business men, only one member having ever had any previous experience in Appropriation Committee work. From my study of the Legislative Budgets in other states, it would appear that New Jersey's experience in this matter is fairly typical of other states. It must be evident that the best results cannot be obtained under such a scheme.

If sectionalism, politics, and "favor me and I'll favor you" could be eliminated from the work of the Appropriation Committee, which is, of course, practically the maker of the Legislative Budget, there would still be enough to condemn this manner of budget-making as a practical means for appropriating state revenues. I have in mind the ever-changing personnel of the Appropriation Committee, which brings to this work men who lack the training and sometimes the ability. These factors constitute an obstacle that must be ever present to greater or less degree in such a scheme for budget-making. It is impossible for such a commission to discern between the good and the bad, the necessary and the unnecessary in any request for funds.

Under our plan for the compilation of our Executive Budget, the responsible head of the government determines the policy for extensions and improvements, and in a general way fixes the funds which are to be allotted to the several institutions. The total of the appropriation of the budget as fixed by the governor must be within the funds estimated as available for state purposes for the year. It is, however, within the province of the Appropriation Committee to revise any items which in its discretion should be amended. At all events, I feel certain that as our governor cannot succeed himself, the danger of political bias has been overcome as far as can be reasonably expected.

New Jersey's Executive Budget, has, however, a wider purpose than that of distributing funds or controlling expenditures. It is a

vital part of Governor Edge's plan for reorganizing New Jersey's administrative and fiscal affairs upon a business basis. In this particular it serves an important purpose in bringing the governor into vital contact with the needs and activities of the various state institutions. Such a connecting link between the responsible head of the government and the activities of the state is essential to a successful administration of public affairs.

While Governor Edge was in the senate, he inaugurated his plan to put the activities of the state on a business basis, making the governor the responsible executive head of the business concern. As the first step in this program, he effected the reorganization and consolidation of some forty or fifty more or less overlapping commissions and boards into six single-headed commissions, thus coordinating kindred activities in the several new commissions. At the same time he organized and established the state purchasing system, which was an important feature of the plan for efficient and economical business government. The program of reorganization has covered a period of four years, and was only completed at last winter's session of the legislature, when all charitable, correctional and penal institutions were brought under the control of a single-headed Charities and Correction Commission. Having served on the Economy and Efficiency Commission with Governor Edge, when he was in the senate, I feel in a measure familiar with the needs which existed for a thorough reorganization of state affairs and the important part our Executive Budget has played in this program.

As yet neither the budget nor the reorganization of our state activities has produced all the good results of which it is capable. It will take time and patience to work out the problems which must necessarily arise in the transition from the old to the new system. As capable of good results as the Executive Budget is under ordinary circumstances, the double purpose which it serves in New Jersey increases many times its possibility for good.

At this point, however, I am led to make a suggestion which is applicable to New Jersey's budget as well as to every form of budget, and to my mind, indispensable to the best budget results. I refer to a permanent budget commission to be appointed by the governor and directly responsible to him, composed of experts or specialists in the several branches of institutional work. The members of such a commission should be employed the year

around; the greater part of their time to be spent in field work, making unannounced visits to the institutions and even living there for such periods as will give them a definite knowledge of the work and the needs of the institution.

My experience with state and municipal budgets has brought me to the conclusion that the successful outcome of a budget system depends to a far greater degree upon the ability and earnest purpose present in the making than upon its form or plan. In other words, it is the man behind the gun who brings the results. To my mind, we have placed far too much emphasis upon the form or plan of budget, and paid too little attention to the care and intelligence used in its making, and the integrity with which its provisions are carried out. The budget in itself appeals to me much as the plan and specifications of a building; they are good or bad, according to the measure of intelligence and honest purpose with which they are made, and I think we shall agree that they will produce results, all things being equal, in the proportion that these factors are present. Such a budget commission would be of great assistance to the Appropriation Committee in making the Legislative Budget, and on the other hand, would prove of great value to the governor and the Appropriation Committee in making and perfecting the Executive Budget. The assistance of such a commission would find an added purpose in New Jersey alone in keeping the governor in constant touch with the activities and needs of the institutions. A commission of this kind, with their knowledge of the state's needs, would be of great value to the purchasing department in the standardization of supplies.

There are one or two features in New Jersey's budget scheme which have been in the process of evolution and adjustment for the past few years. Up to a year ago, New Jersey followed the policy of detailed appropriations with scarcely a deviation. In 1915, however, we overcame some of the unyielding provisions of the detailed budget by giving the State House Commission authority to transfer items within department appropriations. This flexibility proved a timely expedient in adjusting conditions created by the war and saved our institutions from much embarrassment.

It has been a time-honored practice to pass a supplemental bill at each session of the legislature. This practice brings about the same unsatisfactory conditions as exist in other quarters, and I am inclined to believe to a degree destroys the incentive for econ-

omy in administering institutional affairs. It has always been looked upon with favor by our institutions, as this gives them two chances at the state treasury. The supplemental budget has with us had some justification; as in the past, requests for funds were filed a year previous to the operation of the budget, which, under normal conditions, makes a scientific distribution of state funds and the administration of institutions somewhat difficult. It has tended to make the Appropriation Committee careless and provided a ready means of pushing its responsibility on to its successors.

When New Jersey adopted its Executive Budget, we determined to get away from a supplemental or emergency budget, but not until last winter were we able to accomplish this purpose. In 1917, to meet the unforeseen requirements arising from our entrance into the war, we granted a lump-sum emergency appropriation, and placed its distribution in the hands of the State House Commission, which is composed of the governor and the heads of the several departments; this provided relief for many trying conditions which could not have been foreseen in either our annual or our supplemental budget.

Last winter, we changed our fiscal year from November 1 to July 1, thereby bringing the operation of our budget four months nearer the time for filing requests for funds, and within three months after its final adoption. By thus bringing the operation of the budget within a reasonable time after its passage, and with the means of relieving the distress of unforeseen conditions through our emergency fund we were able to do away with the supplemental appropriation bill for the first time in several generations.

I appreciate that the power given the State House Commission to transfer appropriations and the expenditures of our emergency fund does violence to the theories of that school of budget making which adheres strictly to the detailed or segregated budget. I will, for the moment, accept this plan of making appropriations, but in so doing, must ask its defenders to accept with it the necessity for more care and intelligent thought in the making than is given the average budget, whether executive or legislative. I recognize the force of the argument in support of the segregated budget and freely admit that the carefully detailed appropriations bring the expenditures of such a budget under more definite control. I am inclined to the belief that the lack of flexibility of such a budget

surrenders economy and efficiency in its operation. At the same time, we must admit the force of the argument on the other side, viz., that those who know most about an institution can best administer its affairs, and that a detailed budget destroys the incentive and even the opportunity for the exercise of initiative and executive ability. In other words, it makes the executive head or board of managers of an institution simply the errand boys of the budget and its makers; in short, I will accept the detailed budget only after the most positive assurances that it has been intelligently made.

To sum up my conclusions, I am a firm believer in the Executive Budget. It has proved to be a vital part of our plan for a business administration of state affairs. It appeals to me as a step in the right direction, but I wish to emphasize again my unbounded faith in a permanent specialized budget commission as the necessary adjunct to, or rather as an indispensable part of any budget plan. I believe this will prove true in New Jersey, as well as in other states, as I am convinced that no budget will be the instrument for a scientific distribution of state funds until it has the support and guidance of such a commission.

DISCUSSION OF THE NEW ERA IN BUDGETS

VICTOR MORAWETZ, New York city, presiding: The popular meaning of the word "budget" is decidedly vague. Almost any more or less detailed, more or less accurate estimate of expenditures during some more or less definite period of time is commonly called a budget. For example, a few days ago a friend stated to me that she kept a budget of her personal expenses for each quarter, and she said that it always came out right because every evening she added to her budget any expenses which she had forgotten. I asked her how she managed to make this budget balance with her income. "Oh," she said, "whenever I exhaust my bank account I just stop paying cash and have things charged, and then add the things charged to my next budget."

Of course students of government do not use the word "budget" in this loose though perhaps convenient sense. To them a governmental budget means a complete, detailed and accurate estimate of all the contemplated expenditures of the government during the next fiscal period, together with a complete and definite plan for meeting those expenditures.

Moreover, students of government recognize that a sound procedure for the preparation, the initiation and the adoption of a budget is a matter of as great importance as the budget itself. The chief executives of government, the president, the governors, and the heads of the various municipalities throughout the country have charge, or should have charge of the conduct of the affairs of their respective governments and of the expenditure of the government funds, for which they should be made politically accountable. Without a sound and well regulated budget procedure it is impossible to hold these executives to this responsibility. A sound budget procedure, therefore, involves first, the preparation of the budget or financial program by the chief executive in collaboration with his several heads of departments, and its submission by the executive in its completed form to the legislative branch of the government; second, the executive shall have ample opportunity to appear publicly before the legislature, sitting as a committee of the whole, to explain the budget, to meet criticisms, and to take an active part in perfecting it; third, the legislature shall have power to reduce or cut out items, but no power to increase items or to add items which the chief executive does not want, and for which, therefore, he cannot be held responsible.

This in brief is the system which has been adopted in every civilized country, I believe, excepting our own. It is only an adaptation of the methods universally applied to the conduct of large business enterprise. Any business man would scout the suggestion that the financial plan of his company should be formulated either by one committee or by half a dozen committees of his board of directors, in the absence of the president who has charge of its business, and that it should then be adopted by the board of directors without consulting the president. Yet that is sub-

stantially the procedure of our national government and of the governments of most of our states and municipalities.

The procedure in vogue in the United States was developed early in the history of the country as a result of political conditions. In consequence of this, a large part of the people, including many of our legislators, seem to think that it is a natural procedure. They fail to appreciate how utterly unbusinesslike it is, how demoralizing to the legislators, and how subversive of all good government.

One of the most important functions of institutions like the Academy of Political Science, the Bureau of Municipal Research, and the Institute of Government Research, is to make the voters understand the extreme importance of adopting a more sound and businesslike method of preparing and accepting financial plans for the budgets of their respective governments.

MR. ROBERT DOWLING, of the New York Real Estate Board: The method for so many years of keeping a large amount of expenditures out of each annual budget was by issuing long-term bonds. The Real Estate Board is not in favor of issuing bonds for temporary improvements, even for school houses. It is in favor of the "Pay-as-you-go" policy for the City of New York.

For the past twenty years since consolidation, we have had an increasing tax rate, a rate that began in 1902 or 1903, when we increased our assessed values. Under the former method about two-thirds of the real value was assessed, while at present property is assessed presumably at one hundred per cent of the market value. I should say that the City of New York is now over-assessed. Competent judges have thought that we are assessed as high as twenty per cent over the real value.

We have suggested various means of saving money, but we all know with what results. The city's expenses have increased year after year. We have a 2.36 tax rate in New York city. A limitation in the constitution of the state of New York limits cities to an annual expenditure for local purposes of two per cent of the assessed value of the property within the city limits. The addition above two per cent now is for meeting the debt service and the state taxes. I am informed that the 2.36 rate today means 1.66 for local purposes and .70 for state taxes and debt service. We are within thirty points of the limitation fixed by the constitution and we are perfectly willing to reach the limit of two per cent. Then we are stopped by the constitutional provision, not in the charter. Very few people in New York seem to know that the constitution fixes that limitation. Last winter when I was appearing before some of the senate committees I was told by one of the leading senators of the state that the limitation was in the charter, but it is in the constitution of the state of New York.

While this war continues, while the cost of labor and materials is at least one hundred per cent over what it was in 1914, this expenditure should stop. We should utilize the plants that we have, whether for schools or any other purpose. We can use them. We are not getting the use out of our properties that we would if we were a private business. The city

is collecting from real estate over \$100,000,000 annually beyond what it collected in 1903. It is collecting in personal taxes \$4,000,000 to \$5,000,000 less than it collected in 1903. We propose that the City of New York be limited in its expenditures by the legislature, which has that duty put upon it by the constitution. That also has been forgotten. The legislature is specially directed by the constitution to limit the expenditures of cities, and it has done nothing, so far as I know, to accomplish that. It has done nothing but increase the expenses.

At the last session the Committee on Taxation and Legislation, of which I am chairman, presented a bill to fix the tax rate in New York city at 1.75% and fix a 2.0005 tax on personal property in this city. There is something awry when \$4,000,000 of personal taxes was collected in the City of New York in 1916, and the same district now pays \$900,000,000 in income taxes to the United States government.

We do not endorse any system of issuing bonds for these improvements. We are in favor of charging it to us in the annual budget. We prefer to pay the additional taxation rather than to have this debt heaped upon the City of New York. We can watch the budget each year much more easily if it includes \$15,000,000 or \$20,000,000 than if bond issues to those amounts are made. We are opposed to the plan that Controller Craig has advocated here. We are perfectly willing to accept the burden fixed by the constitution.

FRANK J. GOODNOW, President of Johns Hopkins University: I have noticed that in the remarks which have been made with regard to a budget it has been spoken of as a program of work for the next ensuing fiscal period. The Maryland budget amendment does not regard the budget in that light, and it is going to be difficult for any state budget or for any budget that may be adopted for the United States to be so considered. If an executive budget law takes away from the legislature the right to increase any of the estimates which have been made by the governor, at the same time the governor must be required, as he is required by the budget amendment of Maryland, to present not so much a program of work to be done, as a plan for financing an organization already in existence. If you have no system of cabinet government as it exists in England, where the budget system originated, a governor can, by refusing to estimate for any enterprise to which he is opposed, disrupt the entire state administration. Suppose that under the law a public service commission has been provided with certain functions to discharge, and with salaries fixed. Can the governor, by refusing to put in any estimate for the public service commission, wipe it out of existence? That is the result of considering the budget as a program of work. It can be a program of work to be done for the next fiscal period, that is, a program of work to be done under the discretion of the governor, only where the legislature has some power to put the governor out of office. It does not have such power under our system where the governor refuses to provide for an administration as fixed by law. We have attempted to provide that the governor must put in estimates for the organization as it is under the law. As Governor Harrington has

pointed out, the governor may accompany that statement and estimate with the suggestion that such offices be repealed, but we prevent the governor from assuming power, through the power of estimate, so as to disrupt the governmental organization of the state. That is one of the things to guard against in this budget movement, so long as we retain the principle of the separation of the powers of the governor and the legislature.

Furthermore, I think Dr. Cleveland is absolutely right as to the necessity for making some provision for an intelligent and effectual consideration by the legislature of the estimates that may be put in by the governor; and, in order to complete this budget movement successfully, we must make provision for some such officer as the controller and auditor general in Great Britain. I think it can be done easily by a mere extension of the powers of the ordinary controller. Through the adoption of a system of responsibility to the legislature in cases where we are giving the governor the power to omit from his estimates anything that he sees fit, and with the provision for a more effective control by the legislature over the estimates of the governor, I think we shall work out a scheme that will greatly improve the fiscal organization and administration of our state and federal government.

CAPITAL ISSUES FOR STATE AND MUNICIPAL DEBTS AND THEIR RELATION TO WAR FINANCING¹

PAUL M. WARBURG

Vice-Governor, Federal Reserve Board

INTELLIGENCE is a question of priority. It is a question of seeing a thing sooner than the other fellow. When once a thought has been clearly conceived and expressed, when once it becomes public property and is generally understood, it becomes trite and obvious. So also the winning of the war has become a question of priority.

After a four years' struggle, during which over \$112,000,000,000 have been spent, the question of the original state of preparedness has lost its significance in its bearing upon the final outcome. That side, however, has the best chance of winning which, in the long run, will prove the quickest to foresee, and to grasp, the constantly shifting problems of the struggle and to take the steps necessary to master them, whether or not they are of a military nature. As the President said in his splendid appeal for thrift on May 29, "This war is one of nations—not of armies." Modern warfare has become a struggle of resources and industries as much as a struggle of men, and it involves, therefore, not only the millions that actually serve in the field, but the hundreds of millions that stay at home. It means that no country has any chance for victory that refuses to organize its entire population so as to concentrate its thoughts and efforts upon winning the war. In order to triumph, the rich and poor alike must realize, before it is too late, that the government has the first call on our sons, our services, our goods and our savings; that it is entitled to every available ounce of material and man power.

England began the war with the slogan of "Business as usual"; it took many fateful months until the country fully accepted Earl Kitchener's view: "Either the civilian population must go short of many things to which it is accustomed in times of peace or our

¹Read at the National Conference on War Economy, June 6, 1918.

armies must go short of munitions and other things indispensable to them." Today there is no one who would take issue with Lloyd George's striking statement that "Extravagance costs blood; the blood of heroes." I believe it is freely admitted today that England's failure to adopt from the beginning the point of view of these eminent leaders and to appreciate at an early stage the duties devolving upon the civilian population in times of modern warfare has been the cause of loss to her of untold life and treasure. But while England was dealing with wholly unprecedented conditions, justly baffling the ablest minds, we who have the advantage of her dearly bought experience should stand convicted of a very grievous crime if we lost precious time in adjusting our minds to a full realization of our civic duties at this juncture.

In time of war nothing is more dangerous and more fatal than delay. The present emergency requires that the country be aroused to a thorough consciousness of the fact that whoever uses material, credit, labor or transportation unnecessarily is placing a handicap upon his government in its efforts to complete its preparations as speedily as possible. Instead of aiding the government he competes with it, bars its way, and is guilty of delaying its progress towards victory.

It was for the purpose of curbing such waste of the national resources that the British established their Capital Issues Committee, and that a similar committee was organized here about five months ago. Both committees deal only with cases involving the sale, or offer for sale or subscription, of securities (any sale in excess of \$100,000 in stocks or bonds falls within the scope of the American committee's operations). In so far, however, as the great national task of encouraging economy and thrift is concerned, the underlying principles are the same whether we deal with individuals, with industrial and public service corporations, or with states and municipalities, except only that those principles apply with so much greater force in the case of states and municipalities, not merely because the sums involved are likely to be so much greater, but also because the example given by these governmental authorities exercises a powerful influence—for good or for evil—in molding the civic mind. It is for this reason that I am particularly grateful for the privilege accorded me by the invitation to speak upon the topic of Relations of Federal War Financing to the Capital Issues of States and Municipalities and

to be permitted to address a conference which counts amongst its participants so many men prominent as leaders in the public life of their communities — governors, controllers and mayors, whose very presence will insure the widest possible interest in the proceedings of this conference.

When the Federal Reserve Board's Capital Issues Committee, at the request of the secretary of the treasury, undertook to deal with the question of controlling and curtailing capital issues, it established as one of its first principles that every expenditure not strictly compatible with the public interest of the United States—that is, every expenditure not directly helpful to the prosecution of the war, or absolutely necessary for the health and reasonable comfort of the people, ought to be abandoned for the time being. The Capital Issues Committee was mindful of the fact that it was self-constituted and acting without express authority of law, and that it could secure results only by enlisting the voluntary and patriotic co-operation of all concerned. I am frank to admit that when the committee began its operations its members were not at all certain that they would not meet with determined opposition on the part of certain groups of industries which, of necessity, would be seriously affected by its rulings. It is a genuine satisfaction to be able to state that, from the very beginning, the committee met with nothing but the most patriotic response. No matter how important or vital any particular issue may have seemed to the applicant when he first presented his case, and no matter how insistent he may have been in the assertion of the prime importance of his individual requirements, nevertheless, whenever the committee, or one of its sub-committees, explained the true significance of the problem and the principles which it was necessary to apply in order best to serve the country, it never failed to awaken that finer spirit that willingly subordinates individual advantage to the national welfare. The American Bankers' Association, the Investment Bankers' Association and the leading stock exchanges of the country assisted the committee greatly by immediately passing resolutions to the effect that their members would not place, or deal in, any securities coming within the scope of the Capital Issues Committee upon which it had not first favorably passed. The committee was also greatly helped and encouraged by the fact that the authorities of some leading communities promptly made it known that they would do every-

thing in their power to co-operate. As soon as the committee was organized the Honorable A. J. Peters, Mayor of Boston, visited it in person in order to determine in what manner he might best assist its work. In his inaugural address, delivered on February 4, he set forth principles that have already proved an inspiration to many, and will continue to guide many more. He stated:

The gigantic task which we are called upon to perform is one which requires the mobilization of all our resources, material and moral. We cannot all of us fight for democracy on the plains of France. We can all help win the battle for democracy by our loyalty and sacrifice at home. To be effective the national government must have the co-operation and support of every unit of government, state and city. The great municipal agencies must shape their policies to strengthen and support the central power.

The support which our municipality pledges to the national government can nowhere be more effective than in the field of finance. The enormous and imperative needs which the national government must meet by the sale of bonds require that the competition in the sale of securities by other agencies should be restricted as far as possible. The Federal Government is entitled to the first call upon every dollar available for investment, just as much as it is entitled to the first call upon every man available for military service. Local bonds must necessarily compete in the market with national securities, and their issue, therefore, should be restricted to the lowest possible amount.

Early expressions of this character were invaluable because it was fully recognized by the committee that it had no power of law whatever to restrict or interfere with the rights of states or municipalities to raise funds for any purpose they desired, and that only by enlisting their voluntary co-operation could it hope to obtain the best possible results. This is true even though it was realized that the pledge of the stock exchanges and issuing houses was likely to be a very important factor in securing the co-operation of the few who might otherwise have been unwilling to join in the general effort to conserve the national resources.

The War Finance Corporation Act, which gives to the Capital Issues Committee legal standing, continues to preserve this voluntary character. The bill, as originally introduced, vested the committee with power to punish those who would not submit to its rulings. Congress, however, in eliminating this provision, expressed the conviction that it was safe to rely upon the patriotism of the people of the United States to co-operate of their own accord without the threat of punishment, just as the British co-

operate with their Capital Issues Committee, an organization which likewise depends entirely upon voluntary support.

In dealing with states, municipalities or counties, the Capital Issues Committee considered mainly expenditures for the following purposes:

- Hospitals
- Schools
- Sewers
- Filtration plants
- Municipal buildings
- Electric light plants
- Roads, parks and bridges.

When considering applications of this character, the committee made it a rule to seek advice from the federal department boards and commissions having particular knowledge in the premises, for the purpose of determining whether or not the expenditure involved was essential for the successful prosecution of the war, or for the health and necessary comfort of the people. Except when acting upon securities issued for the purpose of providing funds for the renewal of maturing obligations, only those cases that were found to be compatible with the public interest, as above defined, received the approval of the committee. In reaching its conclusions it observed the broad principle that the use of capital, material or labor could be justified only where results could be expected within a very reasonable time. Thus, applications for roads were acted upon favorably only when it was satisfactorily established that they were of military importance, leading to camps, docks, or shipbuilding plants or establishments producing materials necessary for the prosecution of the war, or whenever they were shown to be important from an agricultural standpoint in order to open up agricultural districts or to make their products available for ready distribution. In the case of schools and hospitals the committee sought the advice of the commissioner of education or the surgeon general as to whether or not new buildings were absolutely required and if so whether or not temporary buildings could be used instead of permanent ones, as temporary buildings absorb less material, less labor, less transportation and less money. Monumental buildings and parks or bridges merely involving greater comfort or luxury were disapproved. In many instances the controllers of certain cities and

states consulted with either the central committee or the sub-committee of their district, discussing their budgets item by item, and almost invariably these conferences resulted in the elimination of unnecessary expenditures and a substantial reduction in the estimated appropriations. It is a great satisfaction, therefore, to have this opportunity of publicly expressing appreciation of the splendid spirit of patriotism shown by these states and municipal administrations.

This leads me to the complex question of the relationship of the state and municipal governments to their various public service properties. Almost everywhere there are outstanding at this time franchise and contractual obligations for the building of new subways and surface car lines, or for the furnishing of additional supplies of water, electric light, power, heat and gas. In the majority of these cases the national interest at this time requires that every effort be made to reach an understanding by which such construction may be postponed unless indeed it serves the successful prosecution of the war and the health and necessary comfort of the people. We need the men and the steel to build our ships rather than to build new subways. We need the coal and electric power to drive the wheels of our war factories rather than to give more light for advertising displays or for other non-essential uses. To a certain extent it is true that this new construction is being restricted by the Priorities Division of the War Industries Board, which controls the sale of articles such as steel and copper so as to prevent their being employed for purposes incompatible with the public interest. But both for the Priorities Division and for the Capital Issues Committee it is a difficult task to deny the use of these materials, or the necessary capital, where it can be demonstrated that by reason of such denial the companies affected may be embarrassed to the point of defaulting on their contractual obligations. I hope it will not be considered presumptuous on my part if I venture to urge that all state and municipal governments do their utmost wherever possible and practicable to find a *modus vivendi* for their public service corporations and help them to reach agreements whereby onerous or unnecessary contractual or franchise construction obligations may be waived or held in abeyance at least for the period of the war. In doing this they will effectively support the work of the federal government. Irrespective of the release of labor and material involved, it is obvious

that the community itself will best be served by postponing as much work as possible until a time when prices will be lower and when, in addition, there will exist the need of finding employment for the surplus of labor which may be expected upon the termination of the war.

The drastic shrinkage in the value of public utility investments and the impairment of the credit of these corporations is a source of grave danger to the general financial situation at this time. We need the savings of the investor and it would be a serious menace to the ability of the government to finance the war if public service corporations, strong and solvent before the beginning of the world conflagration, should be forced to go into receivers' hands because of conditions for which they are not responsible. Their credit must be maintained both on account of innocent investors and on account of the necessity of preserving the physical development of corporations whose operations are needed on account of their direct and indirect effect upon the successful prosecution of the war or the health of the people.

Franchises in many cases have become excessively onerous for such corporations, due to the fact that labor, coal, steel and copper can be secured only at exorbitant prices, while the charges for services rendered often cannot be properly adjusted without the consent of the community involved. The president, in his letter to Secretary McAdoo, dated February 19, 1918, expressed his profound concern over this situation, stating at the same time that he hoped that state and municipal administrations would make every effort to deal with these corporations in a spirit of liberality. All that it is proper for me to do, therefore, is to emphasize the public interest in the protection of the credit of these corporations and in the preservation of their ability to perform their important functions.

When the old Capital Issues Committee first undertook its work it arranged for a conference with public service commissioners representing various states of the Union. The committee was delighted to find that these state commissioners were not only open to the suggestions made by the committee but that they were in fullest sympathy with its program and eager to co-operate in every possible respect.

It is gratifying to note that a number of leading municipalities, after a careful study of this problem, have since decided to

make such equitable adjustments as to enable their public service companies to weather the storm, and it is hoped that their example will be emulated all over the country.

The thought may have occurred to many that the War Finance Corporation has been created to cope with this very problem. Without attempting to speak for the War Finance Corporation and restating only what its directors have publicly expressed, I may say that this corporation, in the majority of cases, expects to deal only with concerns that are solvent and able to provide a bankers' guaranty. The amount that may be advanced without that guaranty is strictly limited by law and it is safe to assume that, except where the public interest absolutely requires, the corporation will not consider itself warranted in making advances to companies on the brink of insolvency. Therefore, where advances from the War Finance Corporation are to be sought, it appears advisable that the communities involved should first do their share in placing their public utility companies on a basis upon which they may be at least self-sustaining.

It cannot be denied that state and municipal authorities enforcing economy are often faced with a difficult task. At times it may be very hard indeed to resist the local clamor for improved public service and the pressure brought by those interested in the granting of new contracts. Such cases have come before the committee. There were instances where the necessity for new roads was not so urgent as the desire of the contractor to secure the work, and in some districts architects or builders were more anxious than conscientious public authorities to build schools. In those cases, the support given to the local authorities by the committee often was of the greatest value to them. The Federal Reserve Board's committee was always ready to shoulder the responsibility of protecting the national interest or to take upon itself any blame for the consequences of its action. I am quite certain that I am expressing the views of the new Capital Issues Committee in saying that it will continue to proceed on the same lines. May I urge, therefore, that state, county and city officials avail themselves of the services of the Capital Issues Committee in the freest possible manner? It is very important that this should be done, not merely when the securities are about to be issued, but especially before the expenditures and the contracts are

authorized. It may be embarrassing for the Capital Issues Committee to decline approval of an issue contemplated for the purpose of liquidating a banking obligation previously incurred, except indebtedness incurred prior to April 5, 1918, in accordance with the provisions of Section 203 of the Act of April 5, 1918; but you can readily see that if the committee did not stand ready to disapprove bond issues to be made in liquidation of a banking debt previously incurred for some purpose incompatible with the national interest, some corporations and municipal authorities might soon adopt the practice of first creating the debt and then forcing the hand of the committee.

Curtailment of expenditures involves automatically a proportionate reduction in the amount to be raised by the sale of securities, and to that extent it means that local administrations refrain from competing with the federal government for the savings of the people. I need not enlarge on that important point except to say that if at present it is proper for all corporations to avoid this competition with the government, there is all the more reason for states and municipalities to do so because the majority of the securities sold by them are exempt from federal taxes. The federal government, instead of continuing to issue $3\frac{1}{2}\%$ tax-exempt bonds, has adopted the policy of selling $4\frac{1}{4}\%$ bonds only partly tax-exempt, and is willing to pay the higher interest rate for the purpose of keeping as unrestricted as possible its field of comprehensive taxation. While I do not question the legal right of the states to issue tax-exempt bonds, we must recognize that to the extent that a state issues such tax-exempt securities, it deprives the federal government of the taxing power so essential for the public welfare in this emergency. All the more sacred, therefore, is the obligation imposed upon local governments issuing such tax-exempt bonds not to authorize any issues except those absolutely necessary for the immediate welfare of the community.

May I, in passing, dwell upon an additional reason why it is of the utmost importance to reduce to the minimum the issue of securities at this time? It is on account of their bearing upon "inflation," a problem with which it is impossible for me to deal exhaustively within the limits of this address.

¹The pernicious consequences of inflation are a rapid increase in prices, and a corresponding decrease in the purchasing power of money. As the increase in prices progresses, the amount that governments must borrow grows correspondingly. It becomes a neck and neck race between a fictitious wealth and a reduced value of what that wealth can buy in labor and in goods. It must be our aim, therefore, to restrict inflation to the smallest possible scope compatible with the achievement of our national purpose—the successful prosecution of the war.

From an economic point of view, it is considered unsound and unbusinesslike for any one to issue his obligations for things of no permanent value. No corporation would think of issuing bonds against the coal that has been consumed in producing its finished article or against wages that have been paid; nor would you or I, at the end of the year, treat as an asset the food that we have eaten or the suit of clothes that we have worn and thrown away. That, however, is what all belligerent governments are doing and what, under present circumstances, they are obliged to do. This process must lead to economic disaster wherever the waste of the government is not counterbalanced by increased economy on the part of the people. We must bear in mind that the production of permanent values in normal times is accompanied by a certain amount of necessary and unnecessary wastage, such as the consumption of goods, food and clothing, in quantities beyond what is necessary for the production of the article and expenditures for the comfort and luxuries. The necessary material and labor put into the article produced, plus the incidental wastage of goods, and plus a reasonable profit, constitute in normal times the value of the properties added to the assets of the world. This normal wastage must be reduced as the abnormal wastage of the government increases. If this policy is carried out consistently the speed with which inflation proceeds is thereby reduced proportionately.

To sum it up in its simplest form: on the one side of the balance sheet of the world corporation are all the things unconsumed; on the other side are the dollars. If the dollars increase rapidly and if the "things" do not increase—or if indeed they

¹This is a partial quotation from my paper, "Save and Subscribe and Save the Country," published on April 28, 1918, in which there was presented a fuller discussion of the various aspects of inflation.

decrease—there must ensue inflation of prices. The means to counteract inflation are, therefore, on the one hand, increased production and decreased consumption of “things” and, on the other, a slowing down in speed and volume in the creation of new dollars in the form of new securities, currency or credits. The more we save, the more do we increase the amount of “things” on the one side of the ledger and the more may we hope to succeed in keeping their price down, decreasing thereby the amount of new dollars to be issued in payment. It follows that inflation is not a question merely of banking or currency, but a question fundamentally of saving.

The duties of the state and municipal governments with respect to this great national problem are easily perceived from the foregoing. By curtailing expenditures to the utmost, they not only conserve to that extent goods, labor and transportation, and make the savings of the people available to the federal government, but in addition they avoid the guilt of becoming factors in the further increase of prices and of aiding the process of inflation through the issue of additional securities.

There exists on the part of many some hesitation to co-operate without reserve in this effort of saving, because they fear that consistent saving and curtailment of credit may create great hardships and subject many people to the cruelties of unemployment. I am profoundly convinced that we have no right to let this thought prevent us from going the full length in our drive for economies. When we have under serious contemplation the withdrawal from peaceful occupations of between two and five million men at a time when the country is in such urgent need of such immense quantities of goods that our mind is not capable of picturing them, and when it needs these goods with the least possible delay, fear of serious unemployment need not be entertained. It is true that for some time to come there must be a continuous shifting of men and women from one occupation to another. When there is a shortage of thousands of carpenters in the ship-yards, farm hands, who are generally trained to tinker in all kinds of arts and crafts, will be drawn into these yards and their places in turn will be filled by other classes of day laborers. If the women should decide, as I trust they will, to spend less than in the past upon all kinds of fineries, some girls may lose their places as dressmakers and seamstresses, but, as a result, there will be

found large numbers of them running elevators, or doing clerical work, or serving in munition factories. No doubt there will be temporary and unavoidable hardships connected with this shifting process, but this is one of many sacrifices that we must be willing to bear. Organized labor realizes these conditions and the members of the Capital Issues Committee who met with representatives of their organization were deeply impressed by their patriotic, courageous and statesman-like point of view. At the same time the Department of Labor is trying its utmost to complete its machinery for directing and assisting in this readjustment of occupations while other agencies of the government are devoting themselves to the task of guiding industries away from the production of less essential to essential goods.

Nothing can be more detrimental to the successful accomplishment of our industrial war program than the effort to leave undisturbed the industries that cater to the extravagant tastes of all classes. The argument that it is necessary to keep on selling luxuries in order to finance the war is too preposterous to be considered seriously. In times of war we do well to remember the wise expression of old Diogenes, who said: "How many things there are in the world that Diogenes can do without." That applies to the life of the individual as well as the community as a whole. The people of the United States who stand ready to give their all to win this war will cheerfully forego unnecessary comforts and luxuries when once they fully grasp the real significance of economy in this emergency. If they have not yet begun to do their full duty in saving, it is only because they have not had it sufficiently impressed upon their minds that saving is not a petty matter but that there is glory in saving, that saving has an immediate bearing upon the question of victory and defeat and of life and death, and that at this time it is the biggest contribution the civilian population can make. We must train ourselves to visualize the cumulative result of individual and communal thrift, in the light of which the smallest contribution assumes its true importance. It is not difficult to wear old clothes instead of ordering new ones, when we impress it upon our minds: that (our factories being busy day and night in producing the things needed for the war) there are available only few goods which can be sent to Argentina in payment for her wool; that we have no ships to spare, nor gold; that we—that is, the group of Allied powers—

need Argentina's wheat and meat and wool, or Chile's nitrates or Peru's copper; that through our being short of goods to sell to neutral countries, the value of Allied currencies as reflected by the exchange rates in neutral countries has depreciated so seriously that we can continue extensive purchases in neutral countries only to the extent that they will grant us loans to cover our debit balances. It is true that most of those neutral countries are as anxious to sell their goods as we are to secure them, or even more so, and that, therefore, these neutrals are as vitally interested as we in bringing Allied exchanges back more nearly to normal rates and in granting us credits that will enable us to buy and pay for their goods. But in the nature of things, these credits must be limited by the amounts that these countries can afford to loan and, as far as short loans are concerned, by the maximum amount which we may safely obligate ourselves to release in gold to them upon the conclusion of peace.

It is impossible within the limits of this address to give a full presentation of the many phases in this question of foreign exchange. Suffice it to say in this connection that in saving goods we accomplish three things—first, we decrease the volume of things we must import; second, we increase the volume of things we may export in payment of imports; and finally, even though present lack of transportation facilities may serve to prevent us from shipping all available goods, we nevertheless accumulate a most valuable reserve stock of raw materials and finished products. If Joseph could return today and foretell the future to Pharaoh, he would predict that at the end of this war there will be a great famine of raw materials and he would urge those in power to acquire and store up whatever surplus of foodstuffs, cotton or other similar raw materials the country might be able to save and accumulate. As far as our own position is concerned, such reserves of goods will prove of the greatest value during the war in adjusting our foreign balances, and a most effective protection for the coming period of the after-the-war trade struggle. *Whoever controls the raw materials will hold the key to commerce and finance*, not only because he who can sell goods need not send gold, but also because control of raw materials will give an invaluable advantage to the manufacturer competing in world markets. Our gold reserve at this time is the financial backbone of the Allied cause; let us add to our "gold" reserve a "goods" reserve. Maybe

that Joseph would add this further admonition: that the necessity for saving will not end immediately upon the conclusion of peace but that for years thereafter thrift will remain a national requisite to be practised as scientifically and as cheerfully as was our far-famed extravagance in the past.

It is impossible to do justice to the topic allotted to me without demonstrating as vividly and as convincingly as possible the all-importance of individual and communal thrift and economy for the present and future welfare of the country. The bigger the lines on which we conceive this problem, the easier will it be to arouse the entire country to support the United States in the accomplishment of its difficult task.

Owing exclusively to the iron pressure of necessity caused by the British blockade, and to the consequent enforcement of a rigid system of rationing, Germany has been able to perfect a plan of complete industrial mobilization and of the greatest possible individual and collective thrift and economy. If it is true that "Intelligence is a question of priority," we may say with equal force that "Priority is a question of intelligence." Shall we be able to see soon enough in what respects we must give the government the right of way? Shall we be able to see our duty clearly enough to perfect this great plan of conserving our natural resources by creating our own voluntary blockade around extravagance and waste? Can we co-ordinate by voluntary agreement all the independent forces of state and municipal administrations, so as to secure the efficiency of autocracy under the flag of democracy? It is a difficult task, but one that is beautiful and inspiring, and when once our people grasp its full meaning, they will never let go until it is accomplished.

Nothing will have a stronger effect in molding their minds than the sight of their own authorities restricting public expenditure, and denying public comfort, for the greater benefit of the nation. Individuals will save in the small things when governments demonstrate their determination to save in the big ones. If governors and mayors and those who share with them the responsibility of administering our commonwealth, instead of permitting themselves to be placed on the defensive by apologizing for savings effected by them, will make themselves bold and enthusiastic leaders in this movement, inviting the people to co-operate with them

to the utmost of their ability, we shall have taken a long stride toward winning the war.

CAPITAL ISSUES COMMITTEE OF THE FEDERAL RESERVE
BOARD—SUMMARY OF ISSUES ACTED UPON JANUARY 12
TO MAY 17, 1918.

	Municipal	Public Utility	Industrial	Total
Amount considered....	\$86,878,512	\$172,069,605	\$219,510,269	\$478,458,386
Amount disapproved...	19,791,665	6,000,000	39,900,000	65,691,665
Aggregate approved....	\$67,086,847	\$166,069,605	\$179,610,269	\$412,766,721
Less "refunding".....	21,392,312	125,860,284	111,411,900	258,664,496
Aggregate new issues...	\$45,694,534	\$40,209,321	\$68,198,369	\$154,102,224
New issues last year same period.....	108,952,865	107,504,075	287,754,684	504,211,624
Analysis of new issues approved:				
Amount original applns.	\$65,486,199	\$46,209,321	\$108,098,369	\$219,793,889
Amount approved.....	45,694,534	40,209,321	68,198,369	154,102,224
Curtailment effected...	\$19,791,665	\$6,000,000	\$39,900,000	\$65,691,665
Analysis of applications informally discouraged:				
Number	8	3	6	17
Amount	\$8,915,000	\$7,360,000	\$3,590,000	\$19,865,000

THE PAY-AS-YOU-GO POLICY IN NEW YORK CITY¹

CHARLES L. CRAIG

Controller of the City of New York

THE so-called "Pay-as-you-go" policy for the City of New York, which has been practically abolished by recent legislation, can be understood only in the light of conditions existing prior to its adoption. This policy was first put into effect by resolutions adopted by the Board of Estimate and Apportionment in September 1914, and was afterwards made mandatory by an act of the legislature, passed in the early part of 1916.

On May 13, 1918, Governor Whitman signed a bill, which then became a law, suspending the operation of the previous statute for the period of the war and for one year thereafter. For all practical purposes this may be regarded as its total repeal.

From the earliest times it has been the policy of the City of New York to meet the expense of public improvements of an enduring character, such as public schools, hospitals, engine houses, police stations, correctional institutions, courts, water supply, docks and rapid transit, by the proceeds of the sale of long-term bonds, commonly known as corporate stock. The longest period for which such corporate stock has been permitted to be issued is fifty years. Provision is made for the payment of interest on such corporate stock, and its redemption at maturity, by including in the annual tax levy of each year a sum sufficient to pay the interest for that year and to provide a sinking fund which at maturity shall equal the par value of the corporate stock. In this manner the cost of such public improvements of an enduring character was spread over the life of the improvement, and those who enjoyed the benefits from year to year made payment therefor in the tax levy of such year.

In theory, at least, this was a just apportionment of the costs and benefits of such public improvements. The difficulty with this principle in actual practice was that long-term corporate stock

¹Read at the National Conference on War Economy, June 6, 1918.

was issued for improvements which, in many instances, were of very brief duration. It has been conventional for writers upon this subject to accuse Tammany administrations of having bought perishable supplies with the proceeds of fifty-year corporate stock. The accusation has been made in such form as to imply that the practice in question was peculiar to Tammany administrations. Such, however, is not the case. Those who have proceeded in this manner are found in every administration, of whatever party or combination of parties it may consist. Under fusion or reform administrations, material of the most perishable and unenduring character has been acquired with the proceeds of fifty-year corporate stock. As late as the 17th of April, 1914, by unanimous vote of the fusion Board of Estimate and Apportionment, fifty-year corporate stock was appropriated, the proceeds to be used for the removal of piles and foundations of the "Old Iron Pier" and for the removal of other piers and jetties from the beach fronting Seaside Park at Coney Island. This offense against the principles of sound finance was not actually confined to the use of fifty-year corporate stock for this purpose, but the appropriation was so diverted that it was substantially exhausted, leaving the principal work unfinished. The consequence was that the present Board of Estimate and Apportionment four years later had to make an additional appropriation to do the work in question, the cost of which was met from a budgetary item.

Under the Low administration, horses, horse collars, cans and can carriers and like paraphernalia for the use of the street cleaning department, was purchased with the proceeds of long term corporate stock running mostly for forty years. This was for a ten years longer maturity than had been authorized by any prior administration. This practice was wholly discontinued in the second McClellan administration. For many years it was the practice in the dock department to meet the ordinary expenses of administration, maintenance and operation by the proceeds of long-term corporate stock. This practice also was discontinued in the second McClellan administration and a charter amendment was procured making it unlawful. During the Low administration a large amount of long-term corporate stock, running mostly for forty years, was authorized for the purpose of repaving the streets of the city. It is needless to say that the average duration of any pavement is substantially less than forty years. At the

present time about \$58,000,000 of corporate stock of the City of New York issued for repaving is outstanding, practically all of which runs for forty or fifty years. In the Gaynor administration this practice was abandoned, and since that time corporate stock for repaving has not been issued for a greater period than ten years.

The extent of such practices and the constant criticism thereof, usually aimed at Tammany administrations as though they were the sole offenders, when in fact they have established reforms, must have materially affected the credit of the City of New York. When, therefore, the enormous issues of corporate stock necessitated for the Catskill water supply and the dual subway system were pressed upon the market from year to year, it was inevitable that a large portion of such sales should be undigested and the price materially affected. This has been reflected in the advancing interest rate prior to the outbreak of the present war in 1914, and also in a constantly lower level of prices for New York city corporate stock. These were some of the elements of the situation that existed when the so-called "Pay-as-you-go" policy was adopted in September 1914.

In its full scope and operation that policy prohibited the use of corporate stock for any period whatever for any of the various classes of public improvements that were not of a revenue-producing character. The pay-as-you-go policy implied that all such public improvements of whatever duration and for whatever purpose, if non-revenue-producing, were to be paid for by the taxes raised in the year in which the improvement was made.

The policy was put into effect by stages. In the first stage it was provided that such improvements authorized thereafter in 1914 and in 1915 should be financed one-quarter from the tax levy and three-quarters from fifteen-year serial bonds. Those authorized in 1916 were to be paid one-half from tax levy and one-half from serial bonds. Those authorized in 1917 were to be paid three-quarters from tax levy and one-quarter from fifteen-year serial bonds. Finally, all such improvements authorized after January 1, 1918, were to be paid out of the taxes of the year in which they were made.

Such was the situation that confronted the present administration in New York city on January 1, 1918. It was found in practice that the pay-as-you-go principle, as thus applied, had a

marked tendency to increase the tax rate in order to meet the cost of necessary public improvements of a non-revenue-producing character. The city was confronted with an unfinished subway system, which, if the work had progressed according to the original program, with negligible exceptions, would have been completed and in operation. A vast amount of work and expense was required to complete the dual subway system. The carrying charges for interest and amortization upon the outlays required, and the deficits which the city is compelled to meet, were making a constantly increasing drain upon the city's resources and a material addition to its tax rate. In order for the city to have sufficient borrowing capacity to embark upon the dual subway enterprise, and to keep the tax rate within constitutional limits, there was resort to the device of increasing the assessed valuations of real estate all over the City of New York. This increase was carried to an extent that has evoked the criticism that in many instances the assessed valuation is greatly in excess of the actual value. The president of the department of taxes and assessments under the preceding administration officially stated to the state tax commissioners, representing the State Board of Equalization at Albany, that the assessments in the Borough of Manhattan in 1916 averaged 106% of the sales value of property sold, against which the assessments could be checked. Until such time as the population of the undeveloped portions of Brooklyn, Queens and Bronx boroughs had increased to a point where there was sufficient traffic to support the newly constructed dual subway lines, there was a constantly increasing peril that the assessed valuations in those boroughs would suffer a decrease from the lack of such operation and settlement.

To diminish the deficits that the city has to meet under the dual subway operation, it is necessary that the population of these three boroughs in particular be speedily increased so as to provide revenues for the new subway lines. Any increase in the tax rate in those boroughs was a distinct check upon private improvements and increase in population; and operated to defeat the objective that the city must attain to carry the dual subway system. The tax rate in Queens for 1918 was \$2.56, except for a special act of the legislature which became a law the day before the rate was fixed and permitted a part of the tax to be deferred to a later year, so that the actual rate for 1918 is \$2.41.

The mounting rate of taxation due to the operation of the pay-as-you-go policy manifested two serious consequences. First, it repelled improvements. No sensible business man would locate a manufacturing plant or other industry subject to such a rate, especially when by a slight shift in location he could either be entirely outside the City of New York or in an adjoining state. Second, the mounting tax burden superinduced an increased number of mortgage foreclosure and tax lien sales. Property owners were unable to bear the additional strain, particularly under war conditions. As the number of such forced sales increased, market valuations inevitably declined. Indeed, as a matter of strict legal right, other property owners would be entitled to have their assessments reduced to the level of market values thus made. Thus the city might easily be forced to exceed its debt limit, without any increase in its indebtedness, because of the reduction in assessed values of real estate. Moreover, large appropriations had been made, particularly for educational purposes, which the pay-as-you-go law made practically unavailable. This was due to the circumstance that the purposes for which such appropriations were originally made had been modified by the educational authorities. But the appropriations could not be modified, because if the old appropriations were rescinded, a new appropriation could not be made after January 1, 1918, except upon the pay-as-you-go basis, or to be met 100% out of current taxes. About \$12,000,000 of appropriations previously made for the department of education were thus affected and rendered practically unavailable. This condition, if continued, would greatly aggravate congestion in public schools and the part-time evil. Moreover, we must reckon with the ever increasing burdens of the present war and the direct state tax.

By way of analogy it may be said that if the federal government met all of the expenses of the present war by taxation without resorting to the sale of liberty bonds, we should have the pay-as-you-go policy as applied to the war; and every person who now holds a liberty bond would instead be the possessor of a tax receipt.

Under such circumstances, the present controller of the City of New York prepared and had introduced into the legislature a bill to repeal the pay-as-you-go act passed in 1916, and to substitute therefor what he considers the correct pay-as-you-go prin-

ciple. This principle is that the pay-as-you-go policy is applicable alike to revenue-producing as well as non-revenue-producing improvements; and that the cost of all such improvements of an enduring character should be met by corporate stock or serial bonds, the maturity of which can in no event exceed the normal life of the improvement paid for thereby. The cost of such improvements is contributed by each year's taxpayers who enjoy the benefits thereof and whose taxes provide for the interest for such year, and, if a serial bond, for the instalment thereof due that year, and, if a sinking-fund bond, for the proper contribution to pay it at maturity.

No reasonable distinction can be made between revenue-producing and non-revenue-producing improvements in the application of this principle. The bill in question was drawn after extended conferences with those familiar with the subject, many of whom had been interested in the adoption of the prior policy. In order to avoid the excesses from vicious financing of earlier days, the bill expressed the duration for which corporate stock for various purposes should be issued. For example, for the acquisition of real estate, water supply, rapid transit and like improvements, it was very generally conceded that fifty years was proper maturity. Unquestionably real estate (unless for a seaside park), would endure for fifty years and ordinarily its value would be as great then as now. In England they are issuing obligations running for seventy-five years for the acquisition of real estate for public purposes. The reference to the kind of real estate that might be part of a seaside park is in relation to a large seaside park near Neponsit, since the acquisition of which, forty-seven acres have been carried away by the tide, hardly a very enduring piece of real estate. Part of it is now over on the Jersey coast.

Corporate stock for fireproof buildings and similar improvements was limited in its duration to forty years. Other periods were specified for improvements of a less enduring character. The resolution of appropriation is required to express the duration of the improvement and fix the maturity of the corporate stock authorized. As an illustration of that I might say that officials who have acquired the habit from former administrations have recommended that long-term corporate stock be issued to pay for window shades in one of the hospitals that is being equipped.

We make them pay for these out of their budget appropriation for 1918. This is merely an illustration of how deeply ingrained is the disposition to use long-term bonds for the most ephemeral improvements. These were the reasons for the pay-as-you-go policy, and I think we have now discovered the correct application of it.

This bill as originally prepared was in the form of an amendment to the Greater New York charter to correct the changes made by the pay-as-you-go act of 1916. In the course of discussion in the legislature, it appeared that it would be more expedient to leave the charter provisions for the present as they stand and to change the form of the bill in question to an emergency act. Accordingly, the bill was slightly changed by providing a new title describing it as "An Act for the Relief of the City of New York in Financing its Obligations During the Period of the War, and One Year Thereafter, in Reference to the Issuance of Corporate Stock and Serial Bonds." It then provided that \$15,000,000 of such securities may be issued in any single year in addition to any that may be authorized under existing laws. The existing laws provide for the issuance of corporate stock for revenue-producing purposes and for special purposes, including rapid transit and water supply, such as the new court house and site, Bronx Parkway and change of grade crossings.

I commend to you that you make an assault upon the state legislature of New York at its next session to repeal those special acts which permit bodies that are not accountable to taxpayers to appropriate long-term corporate stock for such purposes as the Bronx Parkway, practically without limit. Of course we have the court-house site, for which no more money can be spent, because it is not there to spend, but that property could be made available for other public purposes if the court-house act were repealed. As the matter now stands that property is practically condemned to idleness until such time as the city may see fit and may have the funds to build a new court-house, or may abandon the enterprise entirely. That is a matter absolutely in the hands of the legislature. We got a bill through the senate this year to make that change so as to render the property available for war purposes, but the assembly smothered it for political reasons.

The practical effect of the \$15,000,000 provision is to permit authorizations to that extent for non-revenue-producing purposes,

such as school houses, hospitals, correctional institutions, fire and police protection. The limitation of \$15,000,000 was agreed upon as the minimum requirement of the City of New York after an exhaustive inquiry into the subject.

The policy of the present Board of Estimate and Apportionment is not to authorize a public improvement of any kind that is not distinctly of a war character. There is no chance whatever for any appropriations being made for the acquisition of new parks or the improvement and erection of buildings of any kind that do not distinctly and directly contribute to the successful, diligent and speedy prosecution of the war.

This bill passed both branches of the legislature without opposition except of a political character. This opposition was continued before the governor to the very last moment of the thirty-day period. It was of a purely political character, doubtless intended to cripple and embarrass the present city administration in dealing with war conditions and caring adequately for educational, hospital, fire and police necessities. Although Governor Whitman was of the same political faith as the most insistent opponents of the measure, he took the broader point of view, being convinced that the relief provided by the bill was imperatively required. This was the last bill that the Governor signed before the expiration of the thirty-day period. It became a law by his signature and is known as chapter 658 of the laws of 1918.

FINANCING LOCAL GOVERNMENTS¹

MORTIMER L. SCHIFF

Kuhn, Loeb and Company

ACCORDING to the most recent reports, we are now spending at the rate of \$40,000,000 per day in round figures, of which about one-fourth is said to be for loans to our Allies. This is approximately \$15,000,000,000 per year, and it is stated that our future requirements will be considerably larger than this. We are raising now about \$4,000,000,000 by taxation, which is almost 27% of our present total expenditures and over 35% of those for our own account, a percentage of expenditures provided by taxation considerably in excess of what any other of the belligerents, including England, secures from that source. It is now proposed that even a larger percentage of our requirements should be raised from taxation and a figure as high as \$8,000,000,000 has been mentioned in this connection. This is not the time or place to discuss the advisability or feasibility of such a program, but one thing is clear, that the amounts to be raised—both from taxation and by loans—are simply stupendous and that it will require the closest economy—public, corporate and individual—to make them available. Figures like these are impossible to visualize, and of course no such amount of money exists. But, as has frequently been said, it is not money—that is, gold and silver—which must be forthcoming, but what money represents—namely, labor and goods. We have pledged to the prosecution of the war all our resources in men and in money, but these are not in a form to be readily available. Both require mobilization, and just as the selection of men for military service must be made carefully to cause the minimum of disturbance to the industry of the country, care must be taken in securing the necessary financial support so as to make it readily forthcoming with the least possible interference with the country's ability to finance its business and industrial requirements. Just as there is a limit to the number of men who can be taken from productive

¹Read at the National Conference on War Economy, June 6, 1918.

industry without affecting the development of the country, so is there a limit to the credit we can provide without curtailing our normal needs. It may well be that we shall have to exceed both these limits and, if necessary, we must not hesitate to do so. Business cannot go on as usual during war time and the sooner we realize this, the sooner shall we make our resources available in their full measure for our war requirements. Thrift and economy, both corporate and individual, must be the rule. Even our national purse is not bottomless, and we must do without many things, so that there may be no interference with the needs of the government. It cannot be emphasized too strongly or repeated too often, that unnecessary expenditures must be avoided, so as to release money—and let me repeat again, that is labor and goods—for war purposes. The primary business of this country at the present time is to win the war, and that as promptly as possible. It will not be over until it is won and every day by which it is shortened means not only a saving of millions of dollars, but what is far more important—of the lives and health of our greatest asset, the young manhood of the country. No sacrifice is too great to accomplish this, and the least those of us who unfortunately must stay at home can do is so to manage our own affairs and shape those of the enterprises under our direction, as to make available the facilities which the country needs for its war program. This requires the wholehearted and unselfish co-operation of capital and labor, of government and business, and can be attained only if all work together with singleness of purpose and unity of endeavor.

Industry, for that is after all the wealth of the country, must be mobilized on the basis of concentrating on essentials and eliminating non-essentials. This can be done by voluntary action on the part of producers or of consumers, by curtailment of credit and by control of raw materials. Voluntary action can accomplish much, but it is apt to be unscientific and to a great extent haphazard in character. Curtailment of banking credit is difficult to enforce and a rather dangerous expedient. It is almost certain to work unfairly, as no general rule for its application can be laid down, and different localities and even different banks in the same locality are sure to have different opinions as to what are essential and what non-essential requirements. Banks can do much to discourage unnecessary expenditures by their customers who seek

credit, but it needs some authoritative body to apply effectively the check which the situation demands. That, it seems to me, can best be done by rigid control of raw materials. It avails little to preach economy if extravagance is encouraged by luxuries being readily procurable. There is little use, for instance, in urging a municipality not to enlarge and develop its park systems at the present time if contractors are ready—yes, even anxious—to undertake the work and are permitted to secure the labor and materials to do so. All the resources of the nation must be husbanded with the greatest care to enable the country to bear its full part in the prosecution of the war, and there should be no unnecessary bidding by one enterprise against another and surely not by different departments or agencies of the government.

There is, however, a curtailment of credit which is effective and which can be applied with reasonable fairness. Of course, there may be some hardship in particular instances, but that can scarcely be avoided in times like the present, and war demands the subordination, if need be, of the individual to the common good. The curtailment of credit to which I refer is that by government control of capital issues. We have now an official body charged with this duty and upon its wise handling of the applications which come before it will depend to a great degree the extent to which expenditures for non-essential purposes can be checked. While the Capital Issues Committee has no power to enforce its mandates and while notwithstanding its disapproval securities may be legally issued, in effect its decisions will be controlling, as its approval will be necessary to make an issue salable. The committee can view the country as a whole and determine whether or not it is advisable that a certain expenditure should be made and whether even though important for its particular locality, other requirements of greater national interest should not have the first call upon the investment market.

I speak of the investment market, but it appears to me extremely doubtful whether as the war goes on there will be a market to any extent for any new issues except government bonds, or, if so, whether the offering of other securities should be permitted. In order to make available the enormous sums which our participation in the war requires, the government must monopolize, if necessary, the investment market; and even state and municipal bonds, attractive as they may be to the investor on account of their exemption from taxation, must give way to the federal necessi-

ties. It may be said that other borrowers can succeed in tempting money out of the pockets of the people by the attractiveness of the terms they may offer, but even if this is possible, it should not be permitted in the interest of the country at large. The needs of the nation must be paramount. As a matter of fact, with government loans for large amounts absorbing the savings of the people, with provision having to be made for large tax payments, to say nothing of the absorption of funds by the Red Cross, Y. M. C. A. and other war activities, which must and should be supported, the financial exhaustion is apt to be such as to prevent the successful placing of larger amounts of other than government securities. It follows, therefore, that in order to avoid the competition of other securities more attractive to investors and to meet the needs of those unable to finance themselves, even if they were permitted to do so, the national treasury must provide either directly or indirectly the funds for the requirements of industry and of states and municipalities for refunding and such absolutely necessary additions, betterments and improvements as are imperatively needed in the national interest and cannot be postponed. For this we have the War Finance Corporation with its resources of \$3,500,000,000, and the revolving fund of \$500,000,000 provided in the Railway Act. Great care must be taken how these facilities are utilized, and their use must be restricted to what is absolutely essential for the prosecution of the war and for the maintenance of the credit of solvent public and private enterprises.

We are at war, and everything must be considered with that basic fact in mind. We are in it for no selfish purposes, for no material gains, and fighting as we are for high ideals, we must take particular care that no selfish interest at home be permitted to interfere with what our armies need abroad. As Mr. Bonar Law, the British chancellor of the exchequer, has well said: "The war has become largely a question of nerves, endurance and staying power." These are grave words and are to us, too, of deep significance. They point our duty clearly. We must harden our nerves, we must fortify our endurance and, to a great extent, it is this country which must finally provide the staying power. That means men and money without stint. We must make every sacrifice of our own comfort, of our own desires, to accomplish this and thus prove to the world that this is a united country, that democracy is efficient, effective and responsive and that the pledge of all our resources has not been empty words.

THE HISTORY OF THE PAY-AS-YOU-GO POLICY¹

ARTHUR M. ANDERSON, J. P. Morgan & Company: The remarks which Controller Craig has made about the "Pay-as-you-go" policy in New York city take me back very vividly to the conditions prevailing at the time the "Pay-as-you-go" policy was instituted. In October 1914, three months after the outbreak of the European War, the financial world was, so to speak, standing on its head. The City of New York, in accordance with its practice for a series of years, had borrowed quite extensively on short-term paper. A part of this borrowing, in fact about \$80,000,000 of it, was represented by obligations payable in London and in Paris. Under normal circumstances these maturities would have been met by purchases of exchange, but, due to the extreme confusion in international finance, exchange was almost unobtainable, and what little dealings took place were far above the normal par of exchange. The quotations, however, really meant nothing, because exchange was not available in an amount sufficient to cover the city's obligations.

The controller set forth the situation in great detail to some of his banking friends and a syndicate was organized to purchase \$100,000,000 of New York city bonds running for one, two and three years, bearing 6 per cent interest. Participation in the syndicate was pro-rated over the banking institutions at a fixed ratio of about 4 per cent of the net deposits of each institution, and you will be interested to know that of the 128 commercial banking institutions in Greater New York all but four were so much interested in the credit of the city and so willing to protect it in times of stress that they agreed to purchase their pro-rata share of bonds and make a payment therefor to the extent of about 80 per cent, if called upon, in gold, the gold to be shipped to Ottawa for the credit of the Bank of England to create deposits in London upon which the city could rely in meeting its indebtedness abroad. The value to the city of this agreement of the banks to pay in gold if required was measured by the premium on the pound sterling which at the time of this agreement was in the neighborhood of 4 per cent, so that the possible 2 per cent profit to the syndicate on the exchange operation (beyond which point all profit was to accrue to the city), was about one-half what any one of the institutions could have made by shipping its own gold to Ottawa and selling bills on London against deposits so created.

One reason for the demoralization in the exchange market at this time was the general knowledge that New York city was obligated for very large amounts abroad, and the psychological effect of the formation of a syndicate to supply gold if necessary to meet the city's debt in London was immediate. Of the \$80,000,000 which the banks agreed to furnish in gold, if required, there was called from them about \$35,000,000. The

¹Discussion at the National Conference on War Economy, June 6, 1918.

balance was furnished either in foreign exchange which the banks had the right to supply, in lieu of gold, or, when the exchange market had again resumed a semi-normal basis of operation, by clearing-house funds. The City of New York received back from the operations of the syndicate over half a million dollars, and the distribution of notes to investors was an overwhelming success. In short, a very dangerous situation was met by courageous and immediate action on the part both of the city and of the bankers of New York city.

At the time the negotiations between the controller and the bankers were undertaken, the market had indicated that the bonds of the city were not so eagerly sought as had been the case in earlier years. While all municipal bonds had declined in selling price as measured by their annual yield during the ten years from 1904 to 1914, the decline in prices for New York city bonds was considerably more pronounced than in the average price of the bonds of about twenty cities whose obligations are used by statisticians in charting market movements.

The greater extent of the decline in New York city bonds was not due to any question as to the safety of New York city's obligations, but the city had put out more bonds than the market wanted to absorb; in other words, it had reached more or less of a point of saturation. From 1904 to 1914 inclusive the city marketed publicly a total of \$681,800,000 bonds, which represented a ratio varying from 10 per cent to over 20 per cent of all the municipal financing in the country during that period. This seemed too large a share for any one municipality to absorb without some effect on quotations and the market prices reflected this fact. It is true that the city's expenditures were in large measure along constructive lines—the building of the great subway system, the enlargement of the water supply facilities and the construction of docks—but the purposes for which the bonds were being put out had nothing to do with the effect on the market price. The city's debt was suffering from growing pains.

In addition to the great amount of bonds issued for purposes such as water supply, rapid transit and docks, there was a large volume of debt created for other purposes, the thousand and one things that go into the plant of a great municipality like New York—schools, parks, museums, streets, fire houses, police stations and the like, the total of which in the years 1904-1914 inclusive, was no less than \$386,000,000. This sum of \$386,000,000 borrowed for non-revenue-producing purposes is an enormous sum of money and it seems particularly so in comparison with what has been spent elsewhere. The city of London appears to me to be possibly the best city to use for purposes of comparison, although, naturally, the different practices on the two sides of the Atlantic make any such comparison difficult as to specific points. The London County Council corresponds somewhat to the Greater City of New York in general administrative powers and the area does not vary greatly in population. Since 1856—over sixty years—the total amounts of money raised and applied by the London County Council have been about \$545,000,000 and, of this amount, about \$115,000,000 has been repaid, leaving an existing gross debt of say \$430,000,000, of which the sinking fund and other accounts applicable to

the redemption of debt hold about \$175,000,000, leaving a little over \$250,000,000 in debt outstanding as of March 31, 1916. This is debt outstanding for all purposes, revenue-producing and non-revenue-producing, and represents an existing debt of a little over \$50 per capita. It compares with over \$1,000,000,000 of New York city outstanding debt in the hands of the public, equivalent to over \$175 per capita. One might expect that with this relatively low debt the tax rate of London would be proportionately higher than that of New York city, but while the basis of assessing taxes in London is at variance with that followed in this country, the tax rate in London in the year 1916-1917 figures out about 1.6 per cent of the estimated capital value of the real estate and not much over 1% of the estimated value of all property in London, including personal property. This is considerably below the present tax rate of New York city, which is over 2%, and also considerably below what the rate has been in any one of the last few years. I understand that in London the only increase in taxes in the last ten years has been due to expenditures for educational purposes.

Moreover, in the London budget of 1917 the interest charges were estimated at approximately one-eighth of the city's total expenditures and an amount slightly larger than one-eighth was devoted to redemption, making a total of a little over one-quarter of the budget devoted to the service of the debt. In New York city the total debt service in 1917 was approximately 29% of the city's revenue, but it was divided between 21% for interest and only 8% for retirement of principal.

It is true that London has not gone so far as New York in municipal undertakings. Only about one-fifth as much debt has been issued for revenue-producing undertakings as for welfare, education, health, streets and such purposes. The city owns tramways, but not the subways nor the water supply, and it has adopted a housing scheme. In some of the other English cities, however, much the greater part of the issuance of debt has been for purposes which are self-supporting. In Manchester and Sheffield about 66% of the debt outstanding represents revenue-producing undertakings; in Liverpool, nearly 70%; in Bristol, about 80%.

With regard to the \$386,000,000 which New York city borrowed from 1904 to 1914 inclusive, however, a large part of the amount was expended for purposes directly connected with the public welfare, health and education, and no one would contemplate any reductions in expenditures for such purposes. But there were large expenditures of other characters during this period, and while I have not the figures showing the detail of this \$386,000,000 between 1904 and 1914, the reports of the controller indicate that during the years 1908-1917, inclusive, bonds were issued for what might be termed luxuries, as follows:

Libraries and sites.....	\$6,200,000
City parks and places.....	13,400,000
Public buildings, except schools and libraries..	21,500,000
New Municipal Building.....	17,100,000
New County Court House.....	11,400,000

Expenditures of this sort, while desirable in themselves, had no small part

in increasing the city's debt to the figure which was the subject of discussion in 1914.

The officers of the city, despite the fact that for some time they had discontinued the practice of paying for non-permanent improvements out of the proceeds of long-term bonds, and since 1911 had limited the life of bonds for repaving to a maximum of ten years, coinciding with the anticipated life of the pavement, felt with the bankers that further curtailment was necessary. There was substantial agreement that the purposes of such expenditures were very desirable in themselves, but the fact that they were not of a self-supporting nature made it appear wise to make them charges against current revenue, or to eliminate for the time being such of them as could be postponed. The city administration, after some two weeks of discussion, proposed an acceptable plan. This plan, subsequently enacted into law, provided that for a period of three years an increasing proportion of the cost of non-revenue-producing improvements should be paid from current revenue, until at the expiration of that period the total should be paid from current revenue. The mechanism for financing the share of the cost to be charged to current revenue was a one-year note, to be provided for in the city tax budget of the following year. The balance of the cost of such improvements was to be financed by a fifteen-year serial bond to be taken up as it matured in equal annual installments, also through the budget. This policy was adopted on two theories: first, that a city—like an individual—should not buy luxuries except such as it was able to pay for out of its current income, viz., its tax collections; and second, that if the city continued to put out long-term bonds for purposes that might be dispensed with, the legal debt-incurring power, already very much reduced through large issues since consolidation, might disappear and—so to speak—hamstring the city financially.

The policy of the city administration in adopting this course was one of the bravest things politically that has ever been done in New York city. The mayor and the controller both knew that the course which was being adopted would mean one of two things, or possibly both of them. First, a reduction in the supply of the things which the people of any city like to have: fine public buildings, good streets, and public facilities of the highest grade. Second, as the non-revenue-producing expenditures could not be eliminated entirely, there would be an increase in the tax rate, but the mayor and the controller and the members of the Board of Estimate were clearly of the opinion that such a change was wise in order to correct what had possibly been a too rapid rate of expansion in the city's expenditures, and the proposed plan was adopted.

There are, naturally, at least two views on any such question, but my feeling is that the results to the city of the "Pay-as-you-go" policy up to the time of our entrance into the war were distinctly beneficial. The report of the chief accountant of the finance department, one of the few men living who understands the city's accounts and the only one able to fathom the city's Sinking Fund and General Fund practice, stated that because of the adoption of this plan the city's outstanding debt remaining out of that created since 1914 is \$10,000,000 less than it would have been

under the old fifty-year Sinking Fund plan, while the interest payments during the three years, 1916, 1917 and 1918 are over \$500,000 less than they would have been under the former method of finance and, up to the present year, the increase in the tax rate was only nominal.

With our entrance into the war, however, conditions changed materially. All calculations were upset. Lord Kitchener's statement that the war would last three years was decried, and a policy which was adopted two months after the beginning of the European conflict could not necessarily stand under the changed conditions existing after over three years of destruction of property and increase in costs of almost everything that goes into the city's accounts.

New York city is a very large business corporation, with an income and expenditure of over \$200,000,000, about one-fifth of the federal government pre-war budget. Quite a little of this money goes into the purchase of materials and supplies, and with an increase in Dun's index price of about 100% since the beginning of the European War, the city had the choice of stopping practically all expenditures, of deferring payment for some of them, or of raising the tax rate to a degree that would have been alarming. There were objections to all three courses, but such an increase in the city's budget as would cause a reduction in the values of real estate through a too sudden increase in the tax rate, involved the immediate risk of eliminating the city's margin for new borrowing for construction purposes and creating a situation which the "Pay-as-you-go" policy had been intended to prevent. Rather than risk the development of an unhealthy situation in real estate conditions, Controller Craig suggested that at least for the period of the war the provision requiring the city to pay its non-revenue-producing expenditures out of current income should be modified in favor of a policy which would permit the city to fund such expenditures over a period not longer than the life of the improvements created.

This policy, while less conservative than the "Pay-as-you-go" policy adopted in 1914, is a great improvement on the plan which had been followed for years. The legislation which has been passed permitting this change will permit the city for the period of the war and one year afterward to issue corporate stock and serial bonds up to \$15,000,000 annually for non-revenue-producing improvements, provided they mature and are redeemed within the estimated life of the improvement as certified in the resolution authorizing it. Its estimated useful life varies from fifty years for property believed to be permanent, such as water supply, rapid transit or sewers, down to fifteen years for expenditures for machinery and ten years for purposes not otherwise specified. This plan of procedure follows the most advanced legislation on municipal financing in Massachusetts and New Jersey and, accepting the theory that all improvements are to be paid for by bonds, it represents almost an ideal policy.

The present plan is infinitely more scientific and conservative than the old method of financing New York city's improvements, and is also more scientific, though less conservative, than the "Pay-as-you-go" policy adopted in 1914. It is something like the difference between the national policies

adopted by the belligerents in this war. England has been paying all of the interest on her debt and about 12% of her share of the actual cost of the war out of taxation. Germany, until recently at least, was not paying out of her income from taxation any of the cost of the war, nor even interest on her huge war debt, trusting to collect these enormous sums from the indemnities paid by her defeated enemies, which expectation will never be realized so long as we have men who can bear arms and fight. The United States, however, it is estimated, will pay out of taxation somewhat over 40% of the actual cash expenditures for the first year of war, exclusive of the loans to our Allies, and President Wilson has intimated that he hoped to pay 40% of the cost of the war in this manner.

Because we want to see New York conservative—not merely scientific, I hope that when conditions shall have returned to normal, it will again go beyond the bare amortization of non-revenue-producing improvements within their life, and either pay out of its income from taxation a substantial portion of these expenditures which do not bring in revenue, or else go without—at least until the city valuations of property give it a respectable debt margin, not a mere 1% or 2% of its outstanding debt.

THE NEED FOR A MUNICIPAL PROGRAM¹

HOWARD LEE MCBAIN, Professor of Municipal Science and Administration, Columbia University: It is needless to dwell upon the manifest disadvantages of a federal system of government in a time of unusual national stress. In the conduct of war there is no need that is more compelling than the need for centralization of authority. Especially is this true under the conditions of modern warfare, which affect the normal courses of labor, of industry, and of finance to a degree hitherto unprecedented in times of war. We have reached perchance only the early stage of what may prove to be an enormous dislocation and temporary redirection of these normal courses.

Whether our present stage along this route be early or late, we have thus far traveled happily if, indeed, this word may be used at all in such connection. We have witnessed the exercise of undreamed-of powers by Congress; and, with the exception of the silly contest over the draft act, we have been spared those judicial battles over questions of constitutionality with which we in this country are so familiar. We have witnessed on the part of state and local governments a degree of co-operation with the national government that has, with few exceptions, been little short of marvelous. As the days of our great task unroll, the necessity for this co-operation will increase. It will increase, moreover, as the strain of the war itself becomes heavier and more personal among us, with the inevitable concomitant of some discontent and perhaps some additional need for coercion. In spite of this fact, in spite also of the large measure of legal autonomy which our states enjoy, and in spite of the fact that in a number of states our cities in turn enjoy a large measure of legal independence

¹Discussion at the National Conference on War Economy, June 6, 1918.

from control by their state governments, I think we have reason to believe that hearty co-operation will be generally and generously given.

What our cities need—and I direct myself especially to these important spending units of our government—is not coercion but a program. And this program should be supplied and supervised by the national government.

Already, of course, the Capital Issues Committee is supplying this program in part. In respect to the activities of this committee I can naturally add little to what Mr. Warburg has so interestingly and lucidly described. I venture merely to express the hope that the Capital Issues Committee will, as I believe it should, develop far beyond its restrictive activities into a constructive and directional agency of great significance and value.

I believe that it would also be wise for the national government to set up co-operative supervision over municipal tax budgets. It is true that in the matter of budgets many cities of this country have nothing to learn from Congress and much that they might profitably teach. It is true also that no city in this country raises revenue by income taxes, now the principal source of national revenue; and that the national government does not use the general property tax, the principal source of municipal revenue. It is equally true, however, that, with national taxes mounting ever higher for the achievement of our now supreme purpose of victory by the sword, municipal taxes should be kept at the lowest possible point. The scrutinizing of innumerable municipal budgets would be an onerous task at best, but it would not be so onerous as many might suppose. A large part of our municipal expenditures are in practical effect, if not in law, in the nature of fixed charges. Only those items involving proposed extensions of service or wholly new services would need to be passed upon. And here again there would be the opportunity for constructive suggestion in the matter of activities peculiarly related to war problems that ought to be organized upon something approximating a national basis.

Finally, and perhaps most important of all, the cities of the country ought to be utilized to the utmost in the task of demobilizing the army and restoring the industries of the country to a peace footing. The magnitude of this task no man can now assess. It would be no mean undertaking even if it were begun tomorrow; it may be colossal beyond imagination ere it is begun. It is in many ways far easier for a people to shift from a peace to a war footing than it is to reverse the action. In the one case there is the practical stimulus of government contracts, of government service, of government control; and there is spiritual stimulus of patriotism called to its highest opportunity for concrete expression. In the other, reliance must be placed largely upon individual enterprise acting under more or less normal economic laws. The government can dislocate industry for war purposes by direct action; the government can relocate industry for peace purposes only by indirection.

Now the cities of this country can be used as an important agency in solving the problems of the immediate after-war period. They may and ought to be mobilized to take their part in the work of demobilization and of industrial readjustment. Every city should be called upon at

this time to formulate a considerable program of public work construction for the period following that longed-for but unknown day when peace with victory shall have crowned our high endeavor. Into this work at least a part of our returning troops and of our dislocated laborers can be absorbed pending the reconstruction and normalization of our disturbed industrial life.

This calls for a program prepared well in advance of the eventuality. Public works cannot be intelligently planned and projected overnight. And the promotion of such a program, as well as its general guidance, should come from the national government.

This will also call for large issues of municipal securities and for high municipal taxes in the post-war period. Even so. The national debt will not be paid by the signing of a treaty of peace; and the national obligation toward those who have been summoned to the military and civil establishments will not be fulfilled by return-trip tickets and honorable discharges; nor will its obligation to those who have gone into the specialized industries of war, whether from patriotic motive or because of the lure of higher wages, be fulfilled by leaving labor at loose ends while private initiative works its economic pleasure in transforming war shops into peace shops.

The cities of this country, despite their autonomous powers and despite the autonomous powers of their states, are integral parts of the nation. In the matter of public works they are, in aggregate, our most important spending units. Their service in this connection should not be lost by neglect. They should be led into co-operation to this important end. There should be some adequate apportionment of what is expected of them. National subsidies in minor part payment for such enterprises might be well worthy of consideration. But in any case, better high municipal debts and taxes than widespread unemployment and distress; better the utilization of these appropriate units of our government than the preservation of our cherished ideals of the federal system and of home rule; and better anything than the unliquidation of a national obligation that grows larger with every dawning day of continued war.

THE GOVERNMENT AS EMPLOYER¹

ALBERT SHAW, Vice-President of the Academy of Political Science, presiding: Carrying on a modern war means nothing short of the assumption by government of something like full control over the entire labor energy of the country. The principles involved are simple enough, but their application is difficult. Where a country is highly militarized in advance of a war, it is to a limited extent true that the undertaking is supported by past effort. In the main, however, war must be sustained out of current effort—that of workers in fields, shops, mines and transportation, as well as that of men in the direct fighting services. Success in a great modern war is imperilled if it is not clearly understood that there must be unity of war effort on the part of the entire population, with government guiding and regulating at all essential points. The withdrawal of millions of men from ordinary pursuits not only leaves a shortage of labor by reason of their going to the camps, but it also creates a stupendous demand for labor in new fields. The equipment and munitioning of armies, the building of ships and support of navies—the merest suggestion is enough to remind every intelligent person of the vastness of the transition that war brings about in the labor conditions of a nation.

Our participation in a war that compels us to co-operate with several European powers does not restrict or lessen the magnitude of the burden thrown upon American labor, but on the contrary increases it very greatly. The government's interest in food production, and therefore in farm labor, is largely due to the need of sustaining millions of people in Europe as well as providing for our own army and navy and our civilian workers. The government's control over the mining and distribution of coal in like manner is the more sweeping and necessary because of shipping needs and other industries vital to our Allies as well as to our own war activities. Even where the government does not assume direct employment—which it does assume in the case of the railroad system—or where it does not create new employment and indirectly control it (as it does in the case of ship-building) it uses indirect means, such as its assumption of control over all steel production, to divert labor from one form of industry to another. Thus government stops the construction of steel buildings in cities, and reduces the automobile industry to a minimum, in order that the materials themselves and also the workers may be at the service of industries more vital to the business of prosecuting the war.

The magnitude of war expenditures almost invariably increases the prices of commodities; and government's commandeering of the output of mines, mills, factories and shipyards leads to price-fixing, always on liberal

¹ Addresses at the luncheon session of the National Conference on War Economy, June 6, 1918.

terms. The cost of living meanwhile increases rapidly, and it becomes necessary to readjust money wages. The immense shifts from one form of employment to another, under war conditions, can best be brought about through the stimulus of very high wages. Nobody resists the government's use of the taxing power and the borrowing power; and a strong government like ours, commanding the resources of a rich country, can find the funds more rapidly than it can secure the materials and the labor that it needs. Speedy results are essential above all else, and these are best secured by according high wages to labor and paying correspondingly high prices for the commodities that labor produces.

Government in war-time, then, becomes a liberal employer, high wages meaning more or meaning less to the laborer in accordance with the ability or policy of the government's financiering, as respects inflation of prices. Previously unutilized elements, such as the labor of women, are brought into service through the attraction of high wages and the stimulus of example. Luxurious spending is discouraged. The ordinary family has additional wage-earners, to take the place of those who have gone to the war. Thus with concentration upon the most vital things, and practice of the principles of thrift which government policy can find ways to promote, the labor shortage due to the enlistment of young men in the fighting services is met to a large extent.

Government policy as respects labor in war-time is certain to have social consequences of a permanent kind, and these may be quite as important in the long run as the international adjustments brought about by the use of armed force. Heroic times call for swift decisions, and it is found possible to give immediate effect to measures in the direction of social progress which might otherwise have halted for a generation or two. Almost everything depends upon the conceptions that are in the minds of those who have it in their power to make these critical decisions. Thus if a great war be short, and its wastage and destruction not too great, there may be certain compensating advantages resulting from the unity of a nation in a period of danger, calling for intense effort and self-sacrifice.

In a democracy, the one clear mark of progress is the average improvement of all the people—first, in what we may call "morale"; second, in economic condition. Morale implies intelligence, solidarity, the confident acceptance by a large majority of what are deemed beneficial aims and motives in the direction of the body politic. Morale implies the orderly pursuit of wise and wholesome things, the submission to just laws, the striving for an environment that promotes popular education and ministers to physical or moral health. Economic progress makes account of improved standards of living, with guaranties against the old-time menace of poverty, with well assured returns for labor, and with enough stability to make for thrift and contentment.

When, in the emergency of a great war, government is obliged to recognize individual efficiency, and to dignify courage and manhood, there may well be rapid advances in real democracy. Our own government, in its classification of its citizenship, requires the services of several million young men for the army and navy. It thinks of them not as "cannon fodder," but

as its most precious element and possession, its future rulers and leaders in all forms of activity. It proposes to shelter, clothe and feed them well; it surrounds them with the best medical and sanitary care; and it undertakes to improve them physically and mentally before returning them to civil life. It provides them with life insurance, and it makes allotments to members of their families. In its relation to these men, the government conceives of itself as a wise employer, intent upon conserving and upbuilding his labor force by every salutary means he can discover.

In the production of war materials, the government finds itself obliged to consider the problems of labor from every standpoint. Its decisions are all in favor of reasonable hours, the encouragement of a spirit of patriotism and good will among the workers, generous wages, the provision of comfortable housing facilities, and the safeguarding of industrial neighborhoods, whether those of shipbuilding or munition plants, from infectious disease and from the contagion of vicious resorts.

It is obvious that the power to draft men for military service implies the power to draft men for the industries without which there could be no fighting. This power to draft labor as well as to control war industry puts government in a position which makes any sort of paralyzing conflict between labor and capital a practical impossibility. Both capital and labor must therefore accept the government's adjustments; and there must be no strikes or lockouts during war-time in any vital industry. This principle has been fully endorsed, and government mediation is settling all differences and gradually standardizing labor conditions. The result is that while our government is carrying on international war it is establishing industrial peace.

Many of the government's policies which have exhibited swiftness in decision and rapidity in execution have in reality been based upon long periods of previous study and experiment. This is true of those interesting model cities that we call "cantonments," in which many hundreds of thousands of soldiers will have been trained, with benefits—due to conditions and environment—that are easily shown in statistical averages. It is also true as regards plans for the housing of workers in the new industrial centers. Architects, engineers, sanitarians, industrial experts are all at hand, capable of giving wise direction to the expenditure of the millions appropriated by government for the housing of labor.

I am strongly inclined to the view that the generous policy of government toward labor is a wise form of conservatism. This is illustrated in the remarkable fact that more than seventeen million different individuals were able to subscribe to the third war loan. With the practicing of thrift and care, it will become possible for the wage-earners to hold very considerable portions of the successive loans placed by the government, while the encouragement of agriculture will tend to increase the number of farmers and gardeners owning their own homes and lands. Private property widely diffused makes for stable and conservative progress in a democracy like ours. In former war periods, the masses of people were relatively the heavy tax-payers; while at this time large business profits and large personal incomes are paying the bulk of the taxes. When rich men

pay the taxes and laboring men receive interest on their bonds, the tendency is a healthy one for a country that believes in popular progress and self-government.

THOMAS B. LOVE, Assistant Secretary of the Treasury: The topic of the Government as an Employer is a peculiarly appropriate one at this hour, when the government of the United States is an employer on a larger basis than ever before in its history. It is the largest employer in the world, the largest employer in the history of the world, and it is not too much to say that there is no single element in all our great war task that is of more importance than wisdom and prudence and essential justice in all of the phases of the nation's employment. The government at this time is the employer of something more than two million soldiers and sailors representing our fighting forces, and with respect to the basis upon which this employment is laid I think it may be fairly said that the government is an employer on a better basis than ever before in its history.

In all of the conflicts and contending opinions, since the war began, upon questions arising out of employment and incident to employment, there are some elemental facts upon which all schools of thought have agreed. An honest contract of employment, whether made by a government or a private employer, individual or corporate, and whatever the grade or character of the employment, must provide for a living wage; and it is generally agreed that a living wage means something more than the mere cost of subsistence for the worker while he is at work. It must also provide for the expenses of living for his natural dependents, and for the expenses of living of the worker and his natural dependents during the hours of the day and the days of the week when he does not work. Further, it must provide for them during those periods when he is unable to work through his physical disability, arising from disease or injury, whether occupational or otherwise, or from old age; and it must include provision for the support of his dependents after his death so long as the conditions of dependency may continue. These things are essential to the living of the employe. Without them life is not worth living. They are simply the fuels of service without which there can be no efficient service.

Contracts guaranteeing these things may contemplate that the employe shall be paid a fixed periodical stipend representing the cost of his ordinary living, and in addition the cost of providing for the contingencies which may arise in the event of his disability, old age or death. Such a contract may contemplate that the worker will set aside and conserve the portion of the wage representing these contingencies, so that when they arise he will have the means in hand to meet them; or, it may contemplate that he will provide for them through purchasing insurance protection against them. Another means is that the worker shall receive a fixed periodical stipend, and shall be committed to a reliance upon the voluntary contribution of the employer in the event of his disability or death or old age. Yet another would contemplate that the employer will pay the employe a fixed periodical stipend somewhat less than if the employe were to carry the risks I have described, upon the condition and with the agreement that the

employer himself will undertake to make certain and definite provisions, as a part of the contract of employment, and as a part of the compensation of the employe, for carrying him through periods of disability, and carrying his dependents in the event of his death.

I cannot better illustrate this latter method of compensation than by explaining briefly the basis upon which our two million and more soldiers and sailors are now employed by the government of the United States. In the War Risk Insurance Act and the other acts which fix the basis of employment for our fighting forces, the government says to the enlisted man, "We will pay you a certain fixed monthly compensation. We will furnish your food and clothing and all medical service. If you have a wife and children, either or both, we will require you to make a definite allotment out of your monthly pay, which shall not exceed one-half your pay, and to this allotment the government will add an equal or greater amount as an allowance and pay this allowance to your family and dependents monthly for their support. If you have no wife or child, and have other relatives dependent upon you for support, and you wish to make a voluntary allotment independently for their support; or, if you have beside a wife and children other dependent relatives, and you wish to make an allotment in addition to the compulsory allotment you are required to make for the support of your wife and children, the government will supplement that voluntary allotment with an equal or greater allowance, and disburse those allotments and allowances to dependent relatives other than wife or child on a monthly basis." In this way the government agrees with the soldier to make a certain definite dependable provision for his wife and children and these other dependent relatives while he is in the service.

It says also that if he becomes disabled or discharged on account of injury or disease arising in the line of duty, and not due to his own wilful misconduct, the government will pay him a certain fixed monthly compensation contingent in amount upon the number and personnel of his family, so long as his disability shall continue. If he loses his life in the line of duty and not as a result of his own wilful misconduct, the government will pay to his wife or child or widowed mother, all of them if he has them, if not, such as he may leave, a certain fixed monthly compensation so long as the widow or widowed mother remains a widow, and to the children until they arrive at the age of eighteen years.

In addition to these provisions, the government declares that if he desires to purchase additional protection against his own total permanent disability, and against the loss of his breadwinning ability for his dependents through his death, it will provide that he may take not less than \$1,000 or more than \$10,000 of insurance, which shall be furnished him at the ordinary peace-time rates, less any loading for expense, and less any addition for the war hazard, the average rate being about \$5.50 per month for a \$10,000 policy. If the soldier is totally and permanently disabled, whether in the line of duty or not, this insurance shall be payable to him in 240 equal monthly installments until his death, or in the event of his death before the total number of installments have been paid, the remainder of such installments shall be paid to his designated beneficiaries. If he dies, the total

amount of insurance is paid to his designated beneficiaries in 240 equal monthly installments.

In carrying out this provision for the soldiers, which is an essential element of the scheme of employment of the soldiers, the Bureau of War Risk Insurance, which was created by Act of Congress, approved October 6, 1917, has written more than \$18,000,000,000 of insurance, and in carrying out all these provisions for his protection and welfare has actually mailed to the families of our fighting men up to this date more than 3,000,000 individual checks. This happens to be about the number of checks that the United States Pension Bureau issues each year to the beneficiaries of our pension list, representing the fighting men in all the wars of our country's history. In addition to the disbursements to the allottees of our soldiers and to their families, there have been 1,700 compensation claims paid, of which 1,096 have been on account of the death of soldiers, and 614 on account of their disability. These claims represent a monthly disbursement of \$44,000, and this amount is of course constantly increasing with the increasing number of disability claims constantly arising. The total amount of the money disbursed for allotments and allowances to the dependents of the soldiers is approximately \$75,000,000. There are about 750,000 of these checks being mailed now each month. The number is rapidly increasing. It seems certain that within the period of not more than sixty days the number of checks issued each month will be at least a million.

Probably the most remarkable phase of the growth and development of the War Risk Insurance Bureau has been in its insurance department. You will understand that the soldiers are permitted to take voluntarily not less than \$1,000 nor more than \$10,000 of this insurance, there being no element of compulsion whatever affecting their taking or not taking the insurance. We have at this time approximately 2,300,000 men, representing officers and enlisted men, in the army and navy of the United States. I think I am quoting the most recent figures that were given out on that subject. Last night there were eighteen and one-half billions of dollars of insurance in force in the War Risk Insurance Bureau, representing just about two and one-quarter million applications. I should say that that insurance probably covered 2,200,000 risks, because there are a few of the applications which represent more than one application for the same soldier. You may better visualize this growth of the War Risk Insurance Department during the past six months if I tell you that it has today in force nearly four times as much insurance as the largest private insurance company in the world. It has in force more than the twenty largest life insurance companies in the world put together. It has written within the past six months more insurance than all of the insurance companies, including fraternal, beneficial associations and insurance companies of every class, wrote in the United States for the year 1917. We have paid or we are paying 4,241 death claims under these insurance contracts, and ten total permanent disability claims, representing an average monthly disbursement of about \$189,000.

This scheme of provision for our fighting men is certainly the most

liberal provision ever made by any government in the history of the world for its fighting forces in time of war. It has seemed to me that it represented probably the soundest and wisest and most prudential form of employment ever used by any nation in time of war or in time of peace. May it not be that it will have an added value in that it will point the way to our country and to the nations of the earth for a rational and sound system of employment which will be mutually beneficial to society and to the worker for peace times as well as for war?

HUGH FRAYNE, of the War Industries Board: I think this war is going to do more to harmonize the world, although it is a great price to pay, than any other thing that could have happened. One of the things that it is doing is to make the government an employer, the largest employer in the world, the most humane and generous employer. As time goes on we shall increasingly realize that many things that might have appeared as impossibilities a few months ago have become actualities and are in operation, in order that we may meet conditions as they confront us today. Fifty per cent of all the money spent by the government today is spent in wages to those whom it employs. That applies not only to civilians but to the officers of the army and navy, the soldiers and sailors, men who are paid much less than they would receive as civilians, yet the conditions under which they work surpass to a very large degree those existing in any other government in the civilized world.

There is a great difference of opinion regarding the government as an employer. Personally I am glad to see that this change has taken place. I am glad that the government is an employer in control of the railroads. There may be some little difference as to wage conditions, which is only natural, since a new experiment dealing with millions of money and millions of employes is bound not to be immediately workable. - But as time goes on I do not doubt that the relations between the government and all of its employes will be most amicably adjusted, so that strikes, actual or threatened, and difficulties of all kinds affecting the workers and their employer, the government, will be entirely eliminated.

This condition might well be taken as a pattern by employers in civil life. If there are any who complain that the government should not enter into the field as an employer, they themselves are responsible for forcing that condition. At this time I am sorry to say there are many who expect to use and exploit labor by working long hours for small wages, with the high cost of living such as confronts us today, and they cannot complain because the government, needing the services of men and women that this war may be not only fought but won, is not going to be an exploiter of labor. There will be no sweat-shop conditions, child labor law violations, or overworked and underpaid women workers where the United States government is the employer, and there will be a strict adherence to all labor laws, without labor disturbances.

There are many departments of the government that, whether through legislation or by conciliation, have been able to reach an understanding with their employes. As time goes on this relation can be fully developed. Many complaints by employers in various sections of the country have

come to my notice, that the government, through its direct or indirect contracts, had taken their employes away by offering a higher wage. Upon investigation it was made evident that under present conditions this was only a living wage, and that these people, notwithstanding the generous amount they received upon their contracts from the government, expected the government to assist them in maintaining low standards, making it impossible for workingmen to provide decently for themselves and their families. The government cannot be expected to maintain a low standard.

What has been done to meet the condition brought about by the war simply hastens the inevitable. The public utilities, the things that the government needs, should be under government control and it is now recognized that it would be better if other industries that are not under control as yet, were taken over. Then the government would be in a stronger position to cope with the many situations that arise as a result of the war and to deal with them, in my judgment, in a much more effective manner.

Labor is satisfied with the government as an employer. Little differences here and there are only small ripples on the wave. Labor will give to the government every ounce of strength, support and co-operation in the mines, the mills, the factories and the workshops, with one object in view—the winning of the war. It has declared that it would give its strength, its skill and its earnings to bring the war to a successful conclusion. But thereafter, there shall be no distinctions. This is neither a rich man's nor a poor man's war. It is the common cause of all the people of our country. Labor looks to the government of the United States not merely as a fair employer, but as an example of true democracy to the world, embodying the highest ideals in all its dealings with the people of our country, especially those whom it employs.

V. EVERIT MACY, chairman of the Shipbuilding Labor Adjustment Board: The war has brought us constantly face to face with many problems, but none that have been more complicated and far reaching than the labor problem. We have taken many steps to provide for a sufficient supply and distribution of raw material. So far little has been done in that direction in regard to labor, yet our raw materials are of small value unless we have the skilled labor in the right place to put those materials to use.

We have long been hearing much about economy, but in our use of labor we have been very uneconomical. The efficiency and usefulness of the individual have not been considered in any way, and there is no essential of industry in which we are shorter than in skilled labor and its proper distribution, and this very shortage has made us exceedingly wasteful in the use of labor. It has brought about a very abnormal turnover in labor, that is, the men have been changing from occupation to occupation, from shipyard to shipyard, or from industry to industry, which has resulted in lessened efficiency and added expense. Possibly I could not illustrate the situation better than by showing you some of the problems that our shipbuilding board has had to meet in the past few months. War brings about revolutionary changes and one of those was the establishment of

our Shipbuilding Labor Adjustment Board, created by an agreement between the Navy Department, the Fleet Corporation and the American Federation of Labor, and providing that all questions affecting hours and wages in the shipyards shall be submitted to this board, and that their decision shall be final.

We began operations early in September, and I think it is a great point in favor of this way of handling these labor matters, when I say that since September, although during that time there were possibly 80,000 men employed in shipyards, and now there are 350,000, there have been no strikes in any of the shipyards in the country of any moment during that period. There have been half a dozen strikes involving possibly 500 men, but they have not lasted more than twenty-four hours, and when the leaders have told the men that this was in violation of their agreement, and ordered them back to work, in every instance they have gone back. As a rule they have gone out because they did not understand how the disputes were to be settled, or that any machinery had been provided for settlement. Knowing the situation, they have gone back immediately.

There are two difficulties that stand out prominently. First, this labor turn-over, men shifting from yard to yard. We went out to the Pacific Coast, and after several weeks of investigation and public hearings, going from Seattle to San Francisco, we determined that the most feasible way of stopping this was to prevent any inducements to the men for changing from yard to yard. We therefore introduced a uniform scale of wages for the entire Pacific Coast.

This was the first industry in which such a board was established, because the government is taking practically the entire output of the shipyards, and is paying the entire cost of any increase in wages, thereby enabling us to take action, and enabling the establishment of this board between two parties, the government and the labor unions. The yardowner was not taken into consideration particularly, because he does not pay the bills. It costs him nothing if wages change.

This was radical, but it was not sufficiently radical. Our board was authorized only to establish a minimum wage. Now we find that owing to the shortage of labor and the large number of men still needed in the shipyards, our minimum wage has simply become a higher basis upon which to start bidding for men than formerly. The only step that seems possible in the present situation has been for the Fleet Corporation to say that it would not pay the bill if higher wage scales were paid than those provided by our board. But that in itself does not meet the situation, because we have had many instances of yardowners naturally anxious to live up to their contracts, who find themselves falling behind, with an insufficient supply of labor, and in several instances they have offered higher scales, paying the difference out of their own pockets. That simply creates discontent in the next yard, and even if it does not produce any strike, it at least continues this shifting of labor from one yard to another.

We have systematized it as far as possible by putting in one scale for the Atlantic Coast. That seems revolutionary in itself. The scale extends from Maine to Texas. When we first began on the Atlantic Coast we had

three scales of wages, but immediately we began to hear from yardowners and the Fleet Corporation officials that men were leaving the two low points and going to the high point, so that all the yards where the scale was below the high point were short of men. We then made one scale for the entire coast.

But the problem is far broader than that, far broader than any one industry. To meet it we must go further; the government and the employers must realize this as well as the men. We must establish for various industries not a minimum wage or a maximum wage, but a standard wage; and some relation must be established between various governmental departments, because we find that while we have prevented the shifting of labor from one shipyard to another, labor is now shifting from one industry to another, and from one governmental enterprise to another. It is not at all uncommon for us to have complaints from yardowners here in New York—I have in mind one particular yard in this vicinity which has been almost closed down because we prescribed certain hours, certain allowances for overtime and certain wages, and another government department, whose prevailing rate is different from ours, let large contracts in the vicinity, thereby absorbing all the men from that particular shipyard. Yet we cannot change to meet that local condition, because if we do, it means changing the scale all along the coast. We have to begin to think in larger terms, not in local terms or terms of our own particular industry or shop. We must think nationally. Many yardowners come to us and say, "If you will allow us to do this or that we can turn out so many more ships." But we reply, "How is that going to affect the yard next-door to you, and the yard in Philadelphia or Boston? Will this change produce a greater national output of tonnage, or will it be confined to your yard and create disturbance in other yards?"

The next steps to take in this field are these: First, establish centralized federal labor employment bureaus in all important sections. Instances of the difficulties arising when private employers are permitted to advertise freely will illustrate the importance of the suggested bureaus. A certain shipyard advertised for 500 men, having discharged 200 the previous day. They may have advertised for blacksmiths to come from Oklahoma to New York. There was no knowledge whether they were qualified blacksmiths or not, but the men, who might not fit the position, traveled clear across the country. Another instance is that of 300 boiler makers who were sent to Seattle, with their expenses paid, to work in a shipyard, and they had not been there three weeks when a manufacturer of ice machines in St. Paul offered to pay their fare there in an effort to lure them to St. Paul. It is simply a merry-go-round. This condition could be largely eliminated through central employment bureaus.

The other necessary step is to have closer co-ordination between the various government departments, and in addition to them, with the private employer who has no government contract. He and the men employed by him, as well as those in government work, must be controlled in some manner. We fixed a wage on the Atlantic and Pacific Coasts which at the time it was fixed was a liberal wage, allowing for the full increased cost

of living, a wage sufficient to attract skilled men to the shipyards, and now many men have left the yards because some of the automobile industries offered them fifteen cents an hour more than would have been permitted in the shipyards. For us to meet that increase in wages does not increase the number of coppersmiths. There are only 1400 or 1600 coppersmiths in the country, and if we raise our scale fifteen cents it will not create one more man. It would simply mean that these outside industries would raise their scale to one dollar.

Unless we are all prepared to take more radical steps than we have yet taken, without fear of what will happen after the war, but take the necessary steps to win the war, we shall not get our full maximum output for war purposes.

THE GOVERNMENT AS EMPLOYER—LABOR INFLATION

SAM A. LEWISOHN

IT is interesting to note that while the country has been comparatively prompt to see that the direction of all our material resources, whether raw materials or finished products, must be handled from a national point of view, it is only just coming to realize that as to its intangible resource, labor, this government must also regard itself as if it were an individual; whether labor is employed in so-called "private" or so-called "public" enterprises. Thus we have had priority in copper, steel and transportation, but no priority in labor. We have had government price-fixing in copper, steel and transportation but no fixing of standard wages for labor. Yet labor is the base on which all our material resources for war or other purposes must be built. Some of the unfortunate conditions outlined by Mr. Macy are due to this disparity in approach. Our tardiness in treating this problem as we have treated other problems is no doubt due to the greater delicacy of the labor problem and to the intricate political and social problems involved.

Mr. Macy has given you his experience as an official member of the employing staff of the government. I can speak only as an unofficial member of that staff of the government—that is, as an officer of a "private" essential industry. One of our plants happens to be turning out a product that a division of the ordnance department has denominated as "the most important article now being manufactured on the war program." We employ approximately 1,500 men and have increased the wages of our labor an average of eighty per cent since 1914. This year alone we have made two increases of ten per cent each. The prices of our products are fixed by the government under the proper theory that we are merely a branch (unofficial of course) of the government, but on the other hand the price of our labor is not so fixed. A large number of plants manufacturing for the government have been built in the vicinity, but none are manufacturing any product more essential to the government than ours—many not nearly so essential. Members of our force are being continually enticed to these plants. Our force happens to form a peculiarly isolated community which is clannish in its habits and resents any newcomers from outside, so it is

difficult to supplement. On the other hand, an influx of labor agents is causing a continual seepage from our plant. We should be glad to pay almost any reasonable rate if we knew just what the ultimate rate would be, but there is practically no standard which we can set for ourselves and the question of the increased cost of living has long been passed. Thus with the selling price of the product fixed, there is a variable at one end and a constant at the other; and owing to the uncertainty of our labor cost we have no means of reporting to the government what our present costs are as a basis for a readjustment of the price so fixed.

But the main evil is the resultant instability. It is true that the greater number of men who leave the plant do not, taking in all the circumstances, better their condition, but are merely tempted by the alluring picture painted by some all too competent labor agent. They may and in many instances do, return, merely having disturbed the continuity of their work and helped to increase railroad congestion. The very competency of the agent in question as a salesman is thus a social detriment. This unrest and instability, though it may be a healthy symptom in normal times, is a serious menace to the government's great war undertaking; for this particular enterprise must be regarded as merely a typical branch of that undertaking.

The laboring man is in no way to be blamed—he is restless and “on the make,” but this is because the conditions artificially created are admirably adapted to invite this attitude. It is the reaction which urges all of us on to better our conditions—a creditable and healthy instinct. Of course, a certain percentage of the increase in wages was desirable from a social point of view, but now it comes to a point where we are having what might be termed “labor inflation.” We are attempting to prevent inflation in other directions by our taxation system and our price fixing, but we have failed to prevent inflation in this most important factor of our industrial cost.

The result is that our plant is meeting great difficulty in turning out our essential product in the quantities imperatively desired by the government. It is this basic labor problem that hampers us. Other problems, and there are many, those of us responsible for the management of the plant can solve and have solved, but here we are helpless in the face of a national problem. We have found from realistic experience that the government is the employer—and it alone can solve the problem.

The remedies for the conditions described are well recognized—they are not only a standard rate of wage but also a priority system exercised through our labor exchanges. Through direct or indirect pressure we employers must be compelled to procure labor through these official agencies, and these agencies must enforce a priority system. The main thing is that the government shall recognize itself and be recognized as the real responsible employer. The problem has been placed in splendid hands under the direction of Mr. Felix Frankfurter, but if his efforts are to meet with success, we employers and employes, recognizing that we are merely agents of the government, must co-operate in every way and cheerfully make the sacrifices which co-operation will necessarily entail.

THE NATIONAL CONFERENCE ON WAR ECONOMY

A REPORT BY

R. FULTON CUTTING

Chairman, Joint Committee on Arrangements, and

SAMUEL McCUNE LINDSAY

Chairman, Sub-Committee on Program

THE Boards of Trustees of the Bureau of Municipal Research and the Academy of Political Science at a joint meeting, held in New York city in March, decided to unite in a call for a National Conference on War Economy to discuss budgets, thrift and economy in public expenditures. It seemed that this was a good time to urge upon citizens everywhere the wisdom of public economy and the necessity for reconstructing the instrumentalities of state and local governments, thereby helping to solve the huge war-time problems of national financial policies.

The call was issued for the Conference to meet in New York on June 5-6, and in addition to the active support of the two organizations mentioned, the co-operation of the National Municipal League was secured. The League agreed to arrange the program for its Twenty-sixth National Conference for Good City Government in conjunction with that of the Conference on War Economy. This also brought into affiliation the Governmental Research Conference, the Association of State Leagues of Municipalities, and other bodies of professional workers in governmental affairs which met with the National Municipal League. The response to the call was very gratifying. The governors of Connecticut, Kansas, Indiana, Illinois, Maryland, Michigan, Nebraska, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Virginia and West Virginia notified us of the appointment of delegates, as did likewise the mayors of New York city, Buffalo, Syracuse and Yonkers in New York state; Reading and Scranton in Pennsylvania; Newark, New Jersey; Salt Lake City, Utah; and Portland, Oregon. Other governors and mayors appointed delegates, of whom we were not officially advised. Other delegates were appointed by the following organizations: Chamber of Commerce, Birmingham, Ala.; Oakland Chamber of Commerce, Oakland, Cal.; Cham-

ber of Commerce, Colorado Springs, Colo.; American Federation of Labor, Washington, D. C.; Chamber of Commerce of the United States, Washington, D. C.; National Federation of Federal Employes, Washington, D. C.; National Association of Letter Carriers, Washington, D. C.; War Industries Board, Washington, D. C.; Washington Chamber of Commerce, Washington, D. C.; Boise Commercial Club, Boise, Idaho; United Brotherhood of Carpenters and Joiners of North America, Indianapolis, Ind.; Chicago Association of Commerce, Chicago, Ill.; International Brotherhood of Electrical Workers, Springfield, Ill.; Springfield Chamber of Commerce, Springfield, Mass.; Maine State Board of Trade, Bangor, Me.; American Federation of Musicians, St. Louis, Mo.; Chamber of Commerce, New Bern, N. C.; Chamber of Commerce of the State of New York, New York city; Federal Council of Churches, New York city; National Security League, New York city; Real Estate Board of New York, New York city; Russell Sage Foundation, New York city; United Cloth Hat and Cap Makers of North America, New York city; Duffy-Powers Company, Rochester, N. Y.; Staten Island Civic League, Staten Island, N. Y.; Chamber of Commerce, Massillon, Ohio; Philadelphia Chamber of Commerce, Philadelphia, Pa.; Printing Pressmen and Assistants' Union Home, Rogersville, Tenn.; Sherman Chamber of Commerce, Sherman, Tex.; Young Business Men's Club, Petersburg, Va.; Richmond Civic Association, Richmond, Va.; Chamber of Commerce, Seattle, Wash.; Milwaukee Association of Commerce, Milwaukee, Wis.

A complete list of delegates registered as members of the Conference is given at the end of this report.

The chief object sought in the organization of the Conference was to focus public attention upon thrift and economy in public expenditures and upon instrumentalities of better management in the conduct of governmental enterprises—national, state and municipal. Interesting experiments are being made in local government under the pressure of war necessity, which it was hoped could be studied and given wider publicity. The preservation of democratic institutions and the largest measure of local self-government consistent with efficiency in national tasks, the elimination of unbusinesslike methods in public affairs in order to mobilize America's genius for organization—these and similar thoughts dominated the plans for this Conference. It was attended by

financial and executive officers of cities, states and nation, as well as by students and writers in the field of political science.

Four sessions were held as follows:

I. Executive Leadership in a Democracy. The opening session was held in the large Horace Mann auditorium at Columbia University, Wednesday evening, June 5, at eight-thirty o'clock. Mr. R. Fulton Cutting presided. Dr. Samuel McCune Lindsay, on behalf of President Nicholas Murray Butler, presented the greetings of Columbia University and read the following letter of greeting from Governor Charles S. Whitman:

May 8, 1918.

MR. R. FULTON CUTTING,
509 Kent Hall,
Columbia University,
New York City.

Dear Mr. Cutting:—

I am in receipt of your letter of April thirtieth, extending an invitation in behalf of the New York Academy of Political Science and the Bureau of Municipal Research, to attend a National Conference in New York city, which is to be held at Columbia University on the evening of June fifth.

I wish sincerely it were possible for me to be present at this time and to give an address of welcome in behalf of the State of New York, but unfortunately an engagement of long standing in the northern part of the state for that date makes it impossible for me to attend.

I feel that this occasion offers a rare opportunity for national service, and I do not have to assure you of my own personal interest in the work of this conference. May I ask you to extend my cordial greetings and believe me,

Cordially yours,

CHARLES S. WHITMAN.

Hon. Wm. P. Burr, Corporation Counsel of the City of New York, represented the Mayor of New York city, and presented the greetings of the city.

The program of this session then followed in this order:

1. Executive Leadership in a Democracy. Introductory address by R. Fulton Cutting, Chairman, Board of Trustees, Bureau of Municipal Research.

2. Recent Efforts to Introduce Responsible Leadership in American Government. Dr. F. A. Cleveland, Industrial Service and Equipment Company, Boston, and former Chairman, Taft Economy and Efficiency Commission.

3. Executive Responsibility for War Economy. Hon. Frank O. Lowden, Governor of Illinois.

4. Reorganization of State Government in Virginia. Col. LeRoy Hodges, representing Governor Westmoreland Davis of Virginia.

5. Reorganization of State Government in Illinois. Charles E. Woodward, Esq., of Chicago.

6. Administrative Reforms. Richard S. Childs, Secretary of the Short Ballot Organization.

II. Financing Local Governments. The second session convened in the Belvedere Room at the Hotel Astor at ten-thirty a. m., June 6. Mr. Mortimer L. Schiff of Kuhn, Loeb and Company, New York city, presided, and gave an introductory address on the topic of the session. The other addresses were:

1. The Pay-as-you-go Policy in New York city. Hon. Charles L. Craig, Controller of the City of New York.

2. Capital Issues for State and Municipal Debts and Their Relation to War Financing. Paul M. Warburg, Vice-Governor, Federal Reserve Board, Washington, D. C.

3. Discussion of the general topic of the session: Howard L. McBain, Eaton Professor of Municipal Science and Administration in Columbia University; Arthur M. Anderson of the staff of J. P. Morgan and Co.; Benjamin C. Marsh, Secretary of the Farmers' National Committee on War Finance, Washington, D. C.

III. The Government as Employer. The third session was a luncheon meeting in the grand ball room of the Hotel Astor at one o'clock, at which over four hundred persons assembled. Dr. Albert Shaw, editor of the *Reviews of Reviews*, and vice-president of the Academy of Political Science, presided. Addresses dealing with the mobilization of labor, the determination of a general labor policy by the government, the personnel of government service, and the settlement of industrial and wage disputes were made by Hon. Thomas B. Love, Assistant Secretary of the U. S. Treasury; Hugh Frayne, representing the War Industries Board, and the American Federation of Labor; V. Everit Macy, Chairman, Ship-building Labor Adjustment Board, Washington, D. C. A paper was submitted by Sam A. Lewisohn of New York city, discussing the general topic from the point of view of the relations of the government and private employers.

IV. The New Era in Budgets. The fourth and closing session of the Conference convened in the Belvedere Room of the Hotel Astor at three p. m. Mr. Victor Morawetz, Trustee of the Bureau of Municipal Research, presided, and gave an introductory address on *The Need For a Budget*. The other addresses and discussion were as follows:

1. The Budget as an Instrument of Political Reform. W. F. Willoughby, Director of the Institute for Government Research, Washington, D. C.

2. The New Jersey Budget Law. Arthur N. Pierson, Majority Leader, New Jersey Assembly, and Chairman, Commission for the Survey of Municipal Financing of New Jersey.

3. Budget Re-organization in Illinois. Frank O. Lowden, Governor of Illinois.

4. The First State Executive Budget. Emerson C. Harrington, Governor of Maryland.

5. Discussion. Dr. F. A. Cleveland, Boston; Dr. Frank J. Goodnow, President of Johns Hopkins University, Baltimore, Md.; Robert E. Dowling, representing the Real Estate Board of New York city.

6. Paper read by title: *The Development of the Budget in Illinois*. Omar H. Wright, Director of Finance, Springfield, Ill.

The attendance at all sessions was large and representative. The practical suggestions and the determined patriotic spirit of the conference will be carried home to many communities by the delegates who participated therein. The Academy of Political Science is distributing widely the proceedings and report of the Conference. The Bureau of Municipal Research will endeavor to follow up and apply the suggestions contained in many of the addresses by bringing them to the attention of the executive officers and legislators in all parts of the country, and through the press will urge them upon the attention of voters and those who shape public policies.

DELEGATES APPOINTED TO ATTEND THE NATIONAL CON-
 FERENCE ON WAR ECONOMY, NEW YORK, JUNE 5-6, 1918.

Aach, William	Galena, Kan.
Adler, Emanuel D.	Milwaukee, Wis.
Archer, R. L.	Huntington, W. Va.
Archibald, Alexander	Newark, N. J.
Barth, Isaac	Albuquerque, N. Mex.
Bauer, Robert	Scranton, Pa.
Bayne, Howard R.	New Brighton, N. Y.
Bee, Wm. F.	Boise, Idaho.
Bennett, Walter H.	New York city.
Berlet, E. J.	Philadelphia, Pa.
Blackford, John J.	Yonkers, N. Y.
Blair, Henry P.	Washington, D. C.
Blodgett, John W.	Grand Rapids, Mich.
Bollenbeck, Wm. J.	Milwaukee, Wis.
Brewer, Richard	Suffolk, Va.
Brown, Paul W.	St. Louis, Mo.
Bryan, Chester E.	Columbus, Ohio.
Buckman, Clarence J.	Langhorne, Pa.
Budish, J. M.	New York city.
Bugbee, Newton A. K.	Trenton, N. J.
Callahan, Timothy F.	Lewiston, Me.
Campbell, Daniel	Scranton, Pa.
Casey, A. J.	Scranton, Pa.
Chamberlain, Frederick S.	Hartford, Conn.
Chambers, Walter E.	New Castle, Ind.
Clause, W. L.	Pittsburgh, Pa.
Combs, Lester	Anthony, Kan.
Conan, Mark E.	Syracuse, N. Y.
Coplon, Charles	New Bern, N. C.
Corbin, William H.	Hartford, Conn.
Crosman, George L.	Portland, Me.
Crowther, J. E.	Seattle, Wash.
Creager, A. Y.	Sherman, Tex.
Darst, J. S.	Charleston, W. Va.
Day, Jonathan P.	New York city.
Dolph, John	Washington, D. C.
Donaldson, W. T.	Columbus, Ohio.
Donahey, A. V.	Columbus, Ohio.
Dorward, O. B.	Reading, Pa.
Doyle, Bartley J.	Philadelphia, Pa.
Drew, John I.	Milwaukee; Wis.

Durkee, C. D.
Eby, Clyde
Eddy, Arthur D.
Eglinton, A. L.
Eisele, Edward
Ellingson, O. J. S.
Eno, Williams Phelps
Ewing, Robert W.
Featherston, D. F.
Fischer, Otto H.
Fuld, S. C.
Fuller, O. B.
Garrett, W. A.
Goodykoontz, Wells
Green, Samuel M.
Groesbeck, Alexander J.
Guild, Roy B.
Gundaker, Guy
Hall, H. L.
Halley, William
Hammersmith, A. A.
Hanson, Rasmus
Hardesty, Florence M.
Harper, Robt. N.
Haynes, Stanford L.
Head, Hayden
Hughes, L. A.
Hyman, T. G.
Ireland, W. E.
Jackson, William P.
Jacobs, Solon
Jaffa, Nathan
James, Lee Warren
Jermyn, Rollo
Johnson, R. A.
Jones, Thomas E.
Junker, Wm. E.
Kaufman, D. J.
Keeler, Fred L.
Kephart, H. M.
Kern, Mrs. E. K.
Kiesewetter, L. F.
Kirkbride, Franklin B.
Kirschbaum, David
Klauss, Otto L.
Knott, Mrs. Arabella
Kotecki, Louis M.
Kresge, S. S.

Grasmere, N. Y.
New Bern, N. C.
Saginaw, Mich.
Rosebank, N. Y.
Scranton, Pa.
Sherman, Tex.
Washington, D. C.
Birmingham, Ala.
Indianapolis, Ind.
Oakland, Cal.
Boise, Idaho.
Lansing, Mich.
Ridgeway, Va.
Williamson, W. Va.
Springfield, Mass.
Lansing, Mich.
New York city.
Philadelphia, Pa.
Santa Fe, N. Mex.
Yonkers, N. Y.
Massillon, Ohio.
Grayling, Mich.
Concordia, Kan.
Washington, D. C.
Springfield, Mass.
Sherman, Tex.
Santa Fe, N. Mex.
New Bern, N. C.
Yates Center, Kan.
Salisbury, Md.
Birmingham, Ala.
Roswell, N. Mex.
Dayton, Ohio.
Scranton, Pa.
Laurel, Md.
Scranton, Pa.
Brooklyn, N. Y.
Washington, D. C.
Lansing, Mich.
Harrisburg, Pa.
Washington, D. C.
New York city.
New York city.
Philadelphia, Pa.
Indianapolis, Ind.
Fort Scott, Kan.
Milwaukee, Wis.
Detroit, Mich.

Lafean, D. F.	Harrisburg, Pa.
Laing, James	Tottenville, N. Y.
Leland, Henry M.	Detroit, Mich.
Lippy, T. S.	Seattle, Wash.
Lynch, James J.	Yonkers, N. Y.
MacCorkle, W. A.	Charleston, W. Va.
MacDonald, A. F.	Washington, D. C.
McGuire, Laurence	New York city.
McLarin, H. M.	Washington, D. C.
McMullen, Hugh A.	Cumberland, Md.
McMurtrie, U.	Indianapolis, Ind.
McNabb, P. J.	New York city.
Magee, Robert V.	Watertown, Conn.
Mason, Jos. C.	Springfield, Ill.
Mayfield, Max	New York city.
Merwin, E. C.	Massillon, Ohio.
Miller, Walter P.	Philadelphia, Pa.
Moore, C. Lee	Richmond, Va.
Mott, C. S.	Flint, Mich.
Myers, W. H.	Wakefield, Kan.
Neslen, C. Clarence	Salt Lake City, Utah
Odell, Samuel	Lansing, Mich.
Ogden, William J.	Baltimore, Md.
Payne, W. L.	Topeka, Kan.
Pease, J. Lorin	Oakland, Cal.
Perry, John H.	Southport, Conn.
Perkins, Henry J.	Springfield, Mass.
Phelps, Harry	Howells, Neb.
Pierson, Arthur	Westfield, N. J.
Pittman, Key	Washington, D. C.
Randle, Arthur E.	Washington, D. C.
Raymond, Thomas L.	Newark, N. J.
Read, William T.	Trenton, N. J.
Reese, Andrew	Massillon, Ohio.
Rennie, T. H.	Pell City, Ala.
Roberts, E. E.	Washington, D. C.
Rogers, Frank F.	Lansing, Mich.
Royer, R. Stuart	Fredericksburg, Va.
Ruth, B. Frank	Reading, Pa.
Samter, Samuel	Scranton, Pa.
Saville, Thomas	Scranton, Pa.
Schieffelin, Wm. Jay	New York city.
Schlueter, Harry	New York city.
Shaw, Edgar D.	Washington, D. C.
Shober, F. L.	Philadelphia, Pa.
Slugg, Morris L.	Belfast, Me.
Smith, Alfred E.	New York city.
Smyth, Calvin M.	Philadelphia, Pa.

Snyder, Charles A.	Harrisburg, Pa.
Springer, Frank	Washington, D. C.
Steinhardt, John	Nebraska City, Neb.
Stern, Erich C.	Milwaukee, Wis.
Thrift, James F.	Baltimore, Md.
Thom, Corcoran	Washington, D. C.
Tharmond, J. S.	Alderscn, W. Va.
Tippy, Worth M.	New York city.
Tredwell, E. A.	New York city.
Tropp, Eugene	Scranton, Pa.
Upmeyer, Wm. H.	Milwaukee, Wis.
Van Duyne, Harrison R.	Newark, N. J.
Vandernoot, P. J.	Washington, D. C.
Vaughan, Coleman C.	Lansing, Mich.
Verdon, F. A.	West New Brighton, N. Y.
Vyne, Leonard	Newark, N. J.
Wadhams, John H.	Torrington, Conn.
Walsh, Wm. J.	New York city.
Webster, Morris C.	Hartford, Conn.
Weesner, M. L.	Red Cloud, Neb.
Wells, Harold B.	Bordentown, N. J.
White, Gaylord S.	New York city.
White, H. M.	Petersburg, Va.
Wirth, William	Scranton, Pa.
Woodward, James F.	McKeesport, Pa.
Yeager, Edward	Reading, Pa.
Zaritsky, Max	New York city.

PREFACE

WAR LABOR POLICIES AND RECONSTRUCTION

THE EDITORS

The Academy of Political Science has tried to make its contribution to public discussion during the period of the war by directing public attention to some of the more vital and persistent questions which have arisen in consequence of the emergency organization of governmental agencies for social and economic purposes. We have all been profoundly impressed by the difficulties that the government has encountered in meeting this emergency situation and, on the whole, by the generally satisfactory character of the results achieved. The mobilizing of men and supplies for military purposes and the putting of industry on a war basis, however, has been easy compared with the task that now confronts the country and will become more acute and difficult during the next few months, namely, that of demobilization and the reorganization of the industrial relations of men and women for the normal activities of government and of peaceful occupations.

The Committee charged with the responsibility for planning the Labor Reconstruction Conference, which was held in New York City on December 6 and 7, 1918, as the annual meeting of the Academy of Political Science, secured the co-operation of many government officials who had to deal practically with the labor problem during the period of war emergency. All the speakers at the Conference, in these papers and addresses, have presented briefly the facts concerning the various situations with which the government had to deal and the measures which it employed to secure the patriotic co-operation of labor. They have interpreted the war labor policies of the government and the authoritative expressions of labor opinion, and have pointed out clearly and briefly what this experience teaches concerning the readjustments that have now become necessary in order that we may get back to a peace basis.

This volume contains some thirty papers and addresses which were presented at the Labor Reconstruction Conference. The conference program presented these addresses in five groups, to each of which a session was devoted. The first dealt with the general topic, "Women in Industry;" the second with "War Labor Standards and Reconstruction;" the third with "Adjustments of Wages and Conditions

of Employment;" the fourth with "Demobilization of Labor in War Industries and in Military Service," and the fifth with "Our Industrial Victory." While this was a practical rather than a strictly logical scheme of classification which served fairly well the needs of a speaking program, we have likewise for purposes of convenience followed the same classification of the papers as they appear in this volume.

The sessions of the conference were more numerous attended than those of any meeting in the history of the Academy. The two evening sessions were attended by audiences of 1000 and 1400 respectively, while the morning and afternoon sessions were likewise attended by audiences of upwards of 500 persons. This indicated a widespread appreciation on the part of business men, labor leaders and representatives of many groups of citizens of the pressing and vital character of the problems discussed.

The annual meeting committees were as follows:

1. Committee on Program: Samuel McCune Lindsay, chairman *ex-officio*, John B. Andrews, Peter J. Brady, Irving T. Bush, Herbert Croly, Edward T. Devine, Davis R. Dewey, Felix Frankfurter, Sam A. Lewisohn, V. Everit Macy, Howard L. McBain, Roswell C. McCrea, William L. Ransom, L. S. Rowe, Henry R. Seager, Albert Shaw, Edwin R. A. Seligman, Walter E. Weyl.

2. Committee on Finance: Adolph Lewisohn, Chairman, John G. Agar, R. J. Caldwell, Thomas W. Lamont, Charles F. McLean, Mortimer L. Schiff, Paul M. Warburg.

I

WOMEN IN INDUSTRY



WOMEN IN INDUSTRY

MARY ELISABETH DREIER

Chairman, N. Y. State Committee on Women in Industry,
Council of National Defence

THE return of peace has again brought new problems into industrial life. Always will we have them with us till the citizens of the free democracies of the world have worked out a sounder and juster economic and industrial life for themselves than we have as yet attained anywhere.

The war with its uncompromising demands and compelling power has brought us all nearer to a passionate desire for working out in our own country more fundamental principles of economic and industrial justice, so that men who were willing to lay down their lives to free the democratic spirit in the world will find on their return that that spirit is winning its way into the common life of the people here and finding its expression in a juster and more decent industrial life. We can not hope to attain this at once but surely we can attempt to lay the foundation of it now.

In facing the facts of today—the demobilization of the army, the return of the soldier to his work, the return of men to peaceful industrial pursuits—let us remember that they are but short steps in our greater endeavor.

At this moment the question of women in industry is more closely related to men than ever before. Since the war, women have entered industries hitherto closed to them on account of their sex, especially those industries which were more skilled and in which higher wages were paid. When the country called men to service in arms it called women into service in munition plants and machine shops, into railroad work and chemical industries. There was a curtailment of the luxury trades, and women went from low-paying industries into higher-paying ones, while others who had never tasted the satisfaction of economic independence have eaten the fruit of this knowledge and found it wholly good.

It is futile to expect these latter to return to economic help-

lessness at the behest of their brethren or at the appeal of the government as a patriotic duty. It is quite as absurd to expect women who have made the astounding discovery that they can actually work at a wage of \$20 or \$40 a week gracefully to return to paper box or laundry trades or department stores for \$7, \$8 or \$12 a week. They have raised the standard of living for themselves and their families and how can they go back to a less than living wage? The question therefore is not only one of women returning to low-paying jobs and into homes to which they do not wish to return, but in finding employment for them in those industries for which they have been fitted in such a way that they will not undercut men in order to hold their jobs. In the final analysis the employer does not care whether men or women do the work provided it is done, but he does care how much he pays for it. No greater disaster could happen in our industrial life than to have women desiring to maintain the standard of living which they reached during this time find that the only way they can hold it is by undercutting men.

This question has more significance than we may appreciate when we consider that the street railway men in Cleveland went on strike against the employment of women who were receiving equal wages, and denied them entrance into the union, and that the War Labor Board's answer to the appeal to solve the difficulties was in ordering the company to dismiss the women. Shall it be said that the right of a woman to hold her job in any industry is not a constitutional right but dependent upon the whim of the men employed?

If women have shown in their new occupations that they are as valuable contributors to industry as men, and therefore in these industries to stay, then indeed the problem is different and more complicated than if they have proved themselves only makeshifts.

WOMEN'S INVASION OF INDUSTRY AND CHANGES IN PROTECTIVE STANDARDS

MARY VAN KLEECK

Director of Woman in Industry Service, U. S. Department of Labor

WHEN the program makers assigned as my subject, "Women's Invasion of Industry and Changes in Protective Standards," I take it that they had in mind no real invasion of industry, because I do not imagine that they think, as perhaps some people do, that women have just begun to work during this war. I take it that what they had in mind was a discussion of the new occupations for women, and the changes that have taken place during the war in our attitude toward women's work.

The new occupations for women, of course, are patent to anyone. Familiar illustrations occur to one—elevator attendants, ticket sellers, workers on the railroads and the street cars, and in a great many other employments which have captured the public imagination. But, after all, it is not the list of the new occupations of women, which is the important thing here. The important thing is the changed attitude toward the work which women can do. The public has shown a keen interest in hearing of women in some new occupation. That is a distinct change since before the war. Before the war employers and school boards and the general public took it for granted that the world was divided into woman's work and man's work, and women were expected to confine themselves to their accustomed tasks. But during the war it became a matter of patriotism for women to enter new occupations, and for employers to release men for the war by employing women for as much of their work as possible. This change in attitude is of far-reaching importance. It has both its assets and its liabilities. If it means the opening up of new opportunities, that is always an asset. If it means a changed attitude which will encourage the women themselves to think more highly of themselves than was possible when the whole world told them that there were certain

things which women could do and certain things which women could not do, it is an asset. But, if on the other hand it is made the occasion for the use of women without sufficient protection against exploitation, then it may become a real menace to the industrial standards of this country.

The first important consideration is the change in attitude not only toward the work which women can do, but toward the importance of standards. Before the war you might almost say that interest in protecting standards of employment, including hours and wages and working conditions, was confined to its advocates in the labor movement, and to a few social reformers. Of course employers took an interest in standards, but generally speaking the movement for changing conditions, especially through labor legislation, had only a limited group of advocates and their case was not generally thought to rest upon the argument for industrial efficiency. Before we entered the war we were being told that England had discovered that the production of shells was dependent upon the standards of work established, and that long hours of work, seven-day labor and night work, inadequate transportation facilities, and the lack of a hot meal at noon, and a great many other things which were once deplored for their effects upon health and social welfare, were equally disastrous in their effects upon the production of shells. So, when we entered the war we already had heard a great deal about the necessity for maintaining standards if we were to handle successfully our program of production. We have had therefore during the war statements from several official sources of what the standards should be.

For example, shortly after our entrance into the war the Chief of Ordnance and the Quartermaster General issued simultaneously a statement which defined eight hours as the basic working day, and 48 hours as the basic working week and declared that night work for women was undesirable; that the minimum wage rate should have a fair relation to the cost of living and should be adjusted from time to time to meet changes in the cost of living; and that there should be channels of communication making possible negotiations between employers and groups of employees. These were the chief points in these standards, stated first of all by the military departments of the Government, responsible for production for the war.

Then similar standards were issued by the Committee on Women in Industry of the Advisory Commission of the Council of National Defense, and by the Woman's Committee of the Council of National Defense, and recently they have been put forward, in substantially similar form, by the Woman in Industry Service, acting for the Secretary of Labor, with the endorsement of the War Labor Policies Board, as part of a reconstruction program. Thus, official backing for standards of working conditions is unequivocal.

You are familiar also with the report which led to the formation of the War Labor Board. That report, formulated by the War Labor Board's predecessor, the War Labor Conference Board, reaffirmed the necessity for the basic eight-hour day, a living wage as the basis for wages, equal pay for equal work for women and men, and the right to organize for collective bargaining. That pronouncement, confirmed by the President, was the official policy upon which the entire work of the War Labor Administration was based.

The enforcement of these standards and policies during the war was based upon the power of the federal government to require its contractors to comply with them. When the War Labor Policies Board was organized in the spring of 1918 there was for the first time a center of action for all of the production departments of the government, making possible the insertion in the contracts of uniform provisions relating to labor conditions. If the war had gone on, the indications were that these provisions would have been more and more comprehensive. For instance, in July, shortly after the organization of the War Labor Policies Board, the Federal Child Labor Law which had been declared unconstitutional by the Supreme Court was written into the contracts of all the contracting departments of the Government. At about the same time the War Labor Policies Board recommended the writing into the contracts of a provision requiring full compliance with state labor laws in carrying out the contracts. That was necessary because some doubt had arisen as to whether the state labor law applied to plants working on contract for the Federal Government and practically controlled by it. In order that there might be no doubt on that subject this provision was written into the contracts.

On October 10 it was decided by the War Labor Policies Board to write into the contracts other provisions to safeguard women workers—the eight-hour day and the forty-eight hour week, with certain exceptions, which were limited, however, strictly to the war needs; and the principle of equal pay for equal work. These provisions, which had previously been pronouncements and recommendations, but not either contractual obligations or statutes with legal force, would thus have become enforceable through the contracts. But the end of the war changed the relation of the federal government to industry, especially with the curtailment of the contracts which followed.

So, the present position of protective standards for women in industry is that we have had authority and support for them in high places during the critical period of the war. We have not however had uniform enforcement of those standards even in the war industries, and we face the readjustment period with knowledge of the fact that the control of the federal government through its contracts is being curtailed, and we are forced therefore to the position where state labor legislation becomes the chief agency through which we must establish such standards as are proper subjects for labor legislation.

As to wages, during the war we have not had a satisfactory enforcement of the provision of the same pay for the same work, for women as for men. The fact that this principle, so explicitly affirmed, has been so inadequately enforced, must be remembered in facing the problems of readjustment. We have the wage problem ahead of us as the most fundamental, the most far-reaching problem of industrial adjustment, and the wage problem of women presents peculiar difficulties. The possible competition of women is perhaps the most important factor to be considered now in the wage problem of men. Miss Dreier has referred to the War Labor Board's award in Cleveland. We have there an award by a board established to adjust industrial disputes during the war, committed to the principle of the right of women to equal pay for equal work, but having no woman member, and that board in which the women were not represented, acting on a dispute between the company and the men's union, instructs a company to dismiss its women workers.

The competition of women who are without representation

in such councils of adjustment is a danger which cannot be ended by their dismissal from their occupation. If there is one lesson that we have learned during the war which can be carried over into peace times, it is the necessity for agencies of adjustment and of negotiation in which workers, employers, and the public interest shall all be represented, and it is clear that the interests of women workers cannot in fairness or wisdom be excluded or ignored.

We must of course agree that women workers are not to be considered a group apart, for they are part of the labor problem as workers and not as women. Nevertheless we know that women as a group in industry encounter certain peculiar difficulties, and those peculiar difficulties must be dealt with by adequate attention to the special problems of women. Unless the special problems of women receive attention, unless their interests are recognized in the reconstruction period and unless they are represented in the negotiations which are necessary in labor adjustment, all sorts of conflicts will become inevitable. We of course realize that there has been released in the world a new spirit of liberal thinking, a new democratic spirit. It will have its opposition, it already has encountered great opposition, but it cannot be destroyed, and the economic position of women is one of the subjects with which that liberal spirit will concern itself. Just because women have lacked economic power, their position in industry is a subject requiring the utmost skill and wisdom in labor reconstruction.

In the interest of reconstruction, standards for women in industry must be established by the further development of agencies of government acting through state labor laws, and through agencies of voluntary conference and negotiation, that is to say, through the participation of women in the trade-union movement.

It is important also that educational authorities should recognize the necessity for adequate training for women workers. That a remarkable record has been made by women in industry during the war is indicated in the reports which were published by such an organization as the National Industrial Conference Board, for instance, representing large groups of manufacturers. These reports have described repeated instances of greater output by women workers, than by the men

whose places they took. When you realize that this greater output was attained by women who without experience took the places of experienced men, you realize what the possibilities may be ahead if we free the energies and the powers of women for the work which they are proving themselves able to do. But, one thing we must recognize, and that is that although it has been possible for women to achieve remarkable results by taking the places of men in an emergency, we must not be content with that kind of emergency entrance into industry, that kind of splitting up of jobs into specialists' jobs, but we must build a solid foundation of adequate training. If women have proved that they can operate drill presses and lathe machines, is it not time to give women training in mechanics, training which shall develop greater skill than is required for the mere operation of a single machine? If they prove that they can rise to the war emergency, is it not for the best interests of the country that we give them a chance to prove what they can accomplish if given a real foundation for their work?

During the war we recognized that the work of women was essential to production for the war. It is no less true that the work of women is essential for production in peace times, when large output is necessary not for selfish interests, but for the upbuilding of all the nations after the destructive effects of the war. The production problem therefore becomes a social problem for the good of the nation, and the conservation of the health and energies of women workers becomes an important part of the program of labor reconstruction which will make satisfactory production possible.

WILL WOMEN RETIRE FROM INDUSTRY WITH RETURN OF PEACE?

MARY ANDERSON

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THE subject that I am asked to speak on this afternoon is whether women ought to or will leave industry at the termination of the war. I think it will be well for us to have in mind what women did before the war. In 1910 we had eight million women in this country in gainful occupations. That means, of course, that women always worked. We have worked in the home; and when the work was taken from the home into the factory, we followed the work into the factory. The new conditions during the war are not that women have entered industry but that they have entered in larger measure into industries affected by the war. When we think along these lines, of course we think of the munition factories, and machine industries. I believe it was in 1912, before the war, at least, that I had occasion to organize about two hundred machine workers in the city of Chicago. They were already in the machine trades at that time, and since that they have gone into them in increasing numbers. They cannot leave industry as they have to work to live. When we think of women going into industry we probably are thinking about many women who were not in industry before. The very meagre figures available show that such women form only five per cent of the women in industry, and they most likely are going back home or wherever they may have come from, but for the other women it will be largely a question of shifting from one industry to another. The women who went into the war industries were principally women from other industries. A large number of them were garment workers, others were house workers, waitresses, and so on, and with the termination of the war industries those women will probably go back into their former occupations.

The great danger, it seems to me, in the whole situation is

the question of wages—equal pay for equal work. We find short-sighted men, working men, saying that a woman ought not to have the same wages as a man. We find that the employers generally think that women should not have the same wages that men have. I remember very well during the war, I went to a manufacturer who asked for women to work at night. It was in a state where there is a law prohibiting women working between the hours of ten in the evening and six in the morning. He wanted to put on three shifts, and when I got to the factory, this is what he said. "I have a shift of men at night; but they are no good, they can't do the work, and if I have to keep them and can't employ women I am only manufacturing for the scrap pile. The women are the best ever. They are doing fine work, they are doing more work than the men, and they are doing it better, and there is very little scrap along with their work." I said, "What are you paying the men who work at night?" He said he was giving them 40 cents an hour with a 15 per cent bonus for working at night. I said, "What are you going to pay the women for working at night?" And he said, "Well, we will start them in at 25 cents an hour." That was the answer to me, and I think it is the answer to every one. I said to him, "Don't you think that is unfair? You say that the women are the best ever, you say that they do better work, they do more work, and they come here with greater regularity than the men, but you don't intend to pay them the same wages that you pay the men." He said, "Well, you know, they have not the same family responsibilities that the men have." I said, "Do you know what family responsibilities the men have that are employed by you now?" He said, "Well, I don't know, but I suppose some of them have families to support and some have not." I said, "Do you know what family responsibilities the women have?" He said, "No, I don't know very much about them, either, but I do know that we have some widows working in the factory, with children to support." I said, "I believe that if you could go to every one of them and count them up, you would find that the women probably have as large family responsibilities as the men." He said, "Well, of course we haven't looked at it that way, and anyway, in this town we are not

paying women the same money." The keynote is equal pay for equal work. And, that does not mean a question of sex. It should be a question of the job, the rate should be fixed for the job, and not for the woman or the man.

It seems to me that if we are going to withdraw from the industries we ought to withdraw the children who are now employed and are below the age of sixteen. About one million are in the industries to-day. Take the South—we have seen something of the South since this war began—I have not been down there, but I have read numerous cases laid before the War Labor Board, and it is deplorable. We find that eight per cent of the people are illiterate, we find they have very few schools, the children go into the factories and mills to work at the age of eight and nine, and even younger, and what kind of a citizenship are we going to get from that? It is time that we withdraw the children from industry. There is a tendency to open up the labor market by discharging a lot of people and flooding the labor market by unemployment. I was told in Boston by the manager of an employment service, that jobs are offered to the women for three, four and five dollars a week less than they have been getting. The women are refusing to take them.

These are very serious questions, and I am glad that the Government railroad administration has stood so firmly for equal pay for equal work. There were cases where they did not get it, but when called to the attention of the Railroad Administration readjustment was made.

All along the line there will not be uniform equal pay for equal work unless the women organize into the trade union movement—the women's movement. Many people say that women do not organize as readily as the men. I always feel like differing with people who say that. I believe that if you take the proportion of women in industry who are organized, and the same proportion of men in industry organized, you will find that women as a whole are as well organized as men. If you divide them into industries you may find that men are better organized. There has been opposition by men's organizations because they did not want the women in their industries, as demonstrated recently in Cleveland, and some of us are very heartily ashamed of it. The people of this country, particu-

larly the working women and working men, must take this question of equal pay, equality in pay and equality in jobs, seriously. We need to think about it and to study it. We must secure the general acceptance of this just principle and put it into force by backing the government in every possible way—for it is trying to do its share to shape and regulate industry in the period of reconstruction—so as to achieve full justice for the women in industry who have done so much to help win the war.

[150]

WOMEN IN THE RAILROAD SERVICE

PAULINE GOLDMARK

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WOMEN'S employment in the railroad service on a large scale is new. It has really been a war-time innovation due to the shortage of man power—especially in the shops and roundhouses. Last January the total number of women employed was 60,000. By July it had increased to 81,000 with the following geographical distribution: 45,000 in the Eastern District, 8,000 in the Southern and 27,000 in the Western District. By October 1 those numbers were probably increased to a total of approximately 100,000.

Naturally the greatest number are in the clerical and semi-clerical occupations. Of the 81,000 employed July 1, 61,000 were working as clerks of all kinds, stenographers, accountants, comptometer operators, *etc.* In this class appear women ticket sellers and bureau of information clerks who served the public for the first time; they were found well fitted for this type of work, and special instruction agencies were opened by the Government in various states to train them in the intricacies of tariffs and routes.

The next largest group of 4,000 it is not suprising to learn, appears in woman's proverbial occupation of cleaning. Women have long been cleaning stations, offices, *etc.*, but now they are employed in the yards to clean coaches and Pullmans, both inside and outside, and in the roundhouses doing the heavier work of wiping locomotives; 800 were so employed.

In personal service, including work in dining rooms and kitchens, as matrons and janitresses, 2,000 were found.

Women entered the greatest variety of new occupations. In the railroad shops 3,000 were employed, ranging from common laborers to skilled mechanics earning the machinists' or carmen's rate of pay.

Owing to these increases and to the need of caring for the special interests of women, the Women's Service Section was created on August 29, under Mr. Carter, Director of the Divis-

ion of Labor. Women employees had already received attention in the first orders of the Director General. He specified (1) that where women are employed their "working conditions must be healthful and fitted to their needs"; (2) that "the laws enacted for the government of their employment must be observed"; and (3) "their pay when they do the same class of work as men shall be the same as that of men."

These general directions were taken over by the Women's Service Section as its first sailing chart. The scope of its work, it will be noted, is drawn on broad lines, and includes supervision of all the factors affecting the industrial welfare of the women employees. The field agents of the Women's Service Section have been making inspections on the railroads both in the east and west. They are reporting on the exact character of the work required, its suitability for women, the observance of the state labor laws as to hours of work, and, most important, the application of wage rates insuring equal pay for equal work irrespective of sex.

It is perhaps not fully known that the rates of pay for all the diversified occupations of the great transportation service of this country have been standardized, and new increases adjusted for every class of employee. This is now true for all positions, from those of the highest skill and responsibility, down to the humblest scrub woman. To give a concrete example—under a special order the pay of coach cleaners was raised 12c, the present minimum being 28c and maximum 40c.

In a conference on Women in Industry, no point, it seems to me, needs to be more emphasized than the equality of pay for both men and women in this service. The Railroad Administration put itself squarely on record in its first wage order on this fundamental principle, and is living up to it in regard to every occupation.

Women were undoubtedly first engaged about a year and a half ago, before the railroads were put under federal control, because they could be obtained for less pay than men. They were, for instance, engaged as common laborers at 20c-22c an hour, at a time when men were receiving 28c-30c for the same class of labor. With rare exceptions where adjustments are still necessary, the wage orders have absolutely stopped this undercutting of men's wages by women. The Women's Ser-

vice Section received many complaints regarding wages, but in the large majority of cases, the grievances are due to incorrect application of the wage orders or to a wrong calculation of the wage increases, rather than to discrimination between men and women.

Soon after women began to be largely employed it became apparent that some of their work was neither profitable nor appropriate. The use of women as section laborers, for instance, in a gang of men working along the tracks at a distance from any house or station was judged to be unsuitable. This was also found to be the case where women were employed as truckers in depots and warehouses, on account of the extraordinary physical exertion required of them. In view of the wages now paid it was believed possible to secure men and to transfer the women to some class of work suitable to their strength and with proper regard to their health. The railroads were accordingly asked to discontinue the employment of women in both these positions.

Similarly, the work of calling train and engine crews was found to be undesirable. The service requires that the caller must find the train or engine man for whom he is looking, who is often asleep at his home, hotel, or boarding house or caboose, where he must be awakened and his signature secured as acknowledging the call. For obvious reasons the railroads were requested to dismiss women from this occupation. Under these orders, on one railroad employing more than 5,000 women, 223 employed as laborers and 193 employed as truckers were transferred to other jobs. To those of us who are accustomed to methods of factory inspection and the difficulty and delay of securing the enforcement of labor laws, it is a new and welcome experience to secure the kind of concerted action which now exists under the federal control of the railroads. The publicity needed to secure support for the labor laws is not required when the government itself is the employer and specifies the conditions of work which it wishes to have maintained.

It does not mean, however, that the Women's Service Section is not busily engaged in securing improvement of conditions of work. The sudden growth in the number of women employed has in many places not been accompanied by proper supervision for health and comfort. It has therefore proved necessary to

secure proper equipment and better supervision of all the conditions of work. Where for instance, women are working in isolated positions at night in the roundhouses or telephone offices, it has been necessary to secure the transfer, especially of young girls, to day-time shifts. Last fall there was some indication that women might be employed on night shifts as watch-women. The Women's Service Section has however taken the position that older men who may be incapacitated for more active work should be employed on these shifts and that the employment of women be restricted to day-time hours.

There can be no question that women working as laborers have been doing work involving too great muscular exertion. They have handled lumber, loading and unloading it in the yards. They have also lifted great weights of iron scrap—all work of this kind is now being discontinued.

The variety of occupations is surprising. One of the railroads reports the employment of women in 99 different operations. It follows that the conditions of work show wide variation and the adjustment of local conditions in case after case must be taken up.

Comparisons with other industries can probably best be made in respect to the women employed in the shops. They are operating a number of machines such as bolt threaders, nut tappers, drill presses, for which no great skill or experience is needed, and which is classed as "helpers work," and rated at the specified pay of 45c an hour. They are also employed for highly skilled work. A number have succeeded as electric welders and oxy-acetylene burners. They have been found well adapted for work on the air-brake equipment and are cleaning, testing and making minor repairs on triple valves. In some places they are now working in a separate group on the lighter weight valves. After a period of training they are giving satisfaction without the help of any man operator. This is an exceptional achievement which is the result of careful training and the selection of the proper type of worker, as well as of a real desire to develop women as a new source of labor. They have responded to this treatment, take a pride in their work and are doing it well. In other places, however, the introduction of women into these trades has been reluctantly undertaken, and they have been given the least possible instruction. Given this

spirit, the employment of women at new and unaccustomed tasks is not a success and results only in indifferent and uninterested workers.

Women are now found performing the duties of crane operators, of hammer operators in the shops, of turntable operators in the round houses and of packers of the journal boxes in the yards; they are acting as attendants in tool rooms and storehouses; they are doing block-signal work and acting as lever women in the signal towers. This list covers in general the more highly skilled operations in which women have become proficient. The scarcity of male labor has not been sufficient to cause the employment of large numbers in any one of these jobs. On the railroads, as elsewhere in industry, the women of the United States have not felt the compelling pressure experienced in England to leave their wonted occupations and enter new lines of work, but the attraction for the most part lay in the opportunity to earn higher wages than women can usually obtain. A remarkably fine type of woman is now to be seen in many of the shops, who enjoys the greater freedom of her work as compared with factory routine, although in many cases the discomfort, the dirt and exposure is far greater. It remains to be seen whether the women will remain in these jobs to any great extent. The railroads will of course recognize the seniority rights of all their employees returning from military service, but as far as the new employees are concerned, women will have the same privileges as other new employees in retaining their positions or being assigned to other jobs. There can be no doubt that in the clerical and semi-clerical positions, they have proved their worth and will to a great extent be retained.

One further point must be mentioned in regard to the privileges which the women enjoy. They have been given fair treatment not only in regard to pay, but in regard to complaints. A woman is given a hearing according to specific procedure and can appeal her case to the Director of Labor or to the Adjustment Boards at Washington. The representatives of the Brotherhoods are members of the Boards. Thus the women share the gains secured through years of collective bargaining on the part of the men.

In the post-war period, while there is federal control of the

railroads, the women will retain their own seniority rights, including the privileges of promotion. The present indications are that they will remain as a permanent part of the great army of clerical workers, rather than in the out-of-door occupations and in the shops and round houses where the environment is often unavoidably unsuitable.

In the recognition given to the labor of women, the policies regulating their employment on the railroads form a new chapter in the industrial history of our country. It may be considered one of our great gains of the war, hastening the day of uniform recognition of these principles in all industries.

[156]

NEW SCIENTIFIC STANDARDS FOR PROTECTION OF WORKERS

ALICE HAMILTON

Staff of U. S. Bureau of Labor Statistics

I SHALL have to begin by saying that I cannot very well discuss New Scientific Standards for Industry, because there are none. We have a mass of information about certain dangers in industry. We know a great deal about the dangers of dust, and of the poisons, and the dangers of overstrain, sudden and long continued overstrain, and such things as heat and humidity; but we do not know how to gauge them, we do not know the point at which these features of industry begin to be really dangerous.

Let me tell you very briefly what we do know about industrial diseases. Back in the first century after Christ, Pliny the elder spoke of the diseases of slaves, lead poisoning and mercurial poisoning, and the consumption of knife grinders and potters. We have all of those still with us. Lead is still our most important industrial poison, mercury is still in use though it has been surpassed by others, and we have added enormously to the list of poisons. We still have consumption from knife-grinding, and from the flint dust in the potteries, and of course we have an enormous number of other dusts in industry today.

Of the dusty trades there are certain that are notoriously dangerous, which we expect to have accompanied by a high rate of respiratory diseases. Others we are not so sure of—the softer dusts, for instance. Perhaps you have heard of the bitter controversy that went on in California over Portland cement. We are not positive about the harmfulness of Portland cement dust, nor do we know much about a soft dust like soapstone, which is largely used in industry. For a long time it was a mystery to us why the coal miner, working in so dusty an atmosphere, escaped consumption. Of course we know that a great many of them do not live long enough, anyway, to get consumption; they die of accident, but even those

who survive do not seem to get consumption when one would expect them to. But gradually we have come to see that these softer dusts act upon the lungs in a way different from the sharp and hard dusts. They act by setting up a slow formation of connective tissue which gradually closes up the drainage system of the lungs, and the people who breathe in soft dust die of pneumonia instead of consumption. When they get pneumonia they succumb to the disease because of this change in the lungs. They cannot throw off a pneumonia as a normal person can, because their sluice ducts have been closed up, the connective tissue has closed the drainage system. It is as if the sewerage system of a city were clogged, and then there was a sudden thaw.

We have found of late that it is not the large and coarse dusts that do the harm, it is the very fine dusts that can penetrate to the lungs. The coarse dusts are caught in the mucous membranes and gotten rid of in that way, but the fine dust gets to the lungs, so that there may be more consumption in a textile mill where you can just see the dust, and not enough to impress you much, than in some stone-cutting sheds where the air is thick with coarse dust because in the one case the dust gets into the lungs, and in the other case most of it does not get in. These things we do know about the dusty trades, but we do not know when a dusty trade begins to be dangerous. We have begun under the leadership of Professor C. E. A. Winslow of Yale, to be able to collect the dust in the air, and to estimate the number of particles of fine dust, dangerous dust, in the air per cubic meter, and we are going to establish gradually a standard of dust, although it will be a long time before we know where the danger point begins. Perhaps we shall some day reach the place where we can say, "you may have so many particles of dust per cubic meter" just as the Health Department says "you may have so many thousands of bacteria per cubic millimeter of milk." It will be a great help when we get to that point, but we are quite far from establishing any such standards for the dusty trades as yet. About the poisons, too, we know a great deal, but there is much more that we do not know. We have known for many years about some metallic poisons, lead and mercury and arsenic, and we are beginning to know about manganese, be-

cause now we are getting the manganese from our own ores. But the war has brought a great many new poisons to us, not only the poisons used in making explosives, but many others. Formerly all our coal-tar products came from Germany. Naturally they were expensive and we did not use them much. Now we are making coal-tar distillates ourselves, and we are using quantities of benzol, and nitrobenzol and aniline, and those are poisons to the nervous system and the blood. The old and familiar poison carbon monoxide gas has become much more dangerous of late. We have had that gas in industry for many years, but now with the increased use of producer gas for heat and power and the increased use of motor engines, carbon monoxide poisoning is increasing.

We know pretty well what happens when a person is overcome by one of these poisons, but those are the acute cases, the men exposed to large doses; and they are the exceptions, not the rule. Industrial poisoning is rarely acute, it is typically chronic. The typical industrial case is one that comes from many tiny doses repeated month after month and year after year, and about these we know very much less. Probably for every man who is gassed with carbon monoxide in the great steel-rolling mills, there are hundreds of tailors and bakers and laundry workers and linotypers and electrotypers who are slowly poisoned by the minute quantities of carbon monoxide in the air that comes from naked gas jets; and for every man who is gassed by going into a benzol still to repair it, there are probably hundreds who lose their health gradually by working with rubber cement, and by working in varnishing establishments, getting a little benzol every day. We hope to be able to find out through studies that we are making on the changes in the blood just where the danger point in chronic poisoning begins, but we are a long way from that as yet.

We know a great deal about fatigue, we know that it causes nutritional and nervous disturbances that are serious. We know the work of Professor F. C. Lee and Josephine Goldmark. Throughout the war they have been working very hard to devise some method for determining the point at which fatigue begins, and at which exhaustion begins, but they have not succeeded yet. We have no standard for the weight that a woman ought to be able to lift, and I do not know how we shall ever arrive at such a standard.

A great deal of work has been done on the question of heat and humidity by Professor Winslow. But all his work was done on men, as he himself told me. Women's standards of heat and cold are different from men's. Women seem to stand the cold better. I find as I go around in industrial establishments, that if there is a large room with men and women working together, some of the windows will be up, while if there are only men in the room the windows will all be down.

We do not know yet whether women ought to be protected more from poisons than men. We know they ought to be protected more from lead poisoning than men, because lead is a worse poison for women than it is for men. I do not mean that the symptoms are necessarily more serious in women than in men, though they are likely to be different. Lead convulsions are more common in women than in men, as is lead blindness, while lead colic and lead palsy are common in men. But the serious thing about lead poisoning in a woman is that it passes on to her children, and if she works in lead prior to marriage she is not likely to have healthy children, indeed she is not likely to have living children, and if she continues the first year after marriage, the results are much worse than if she had stopped her lead work at marriage. That means that lead is a race poison, and that women must be protected much more in lead work than men are.

We do not know about other poisons in this respect. Reasoning from analogy we should suppose that some others would have the same effect. Dr. Stockhard of Cornell, has found that alcohol is a race poison, that alcoholism in the mother is much more apt to have an effect on the offspring than alcoholism in the father. If that is true it seems to me perfectly reasonable that it would be true also of other poisons that affect the nerve centers, such as nitro-benzol and trinitrotoluol, and others to which women are being exposed in munition plants, some of which they may now begin to work with in the dye industry.

Of course all this means that we have no absolute standards as yet which we can lay down for industry, but it does not mean that because of our lack of complete knowledge we cannot insist upon such things as shorter hours and better working conditions for women in industry.

Sometimes I think that we are rather obsessed with the necessity for statistics. I would not for anything decry the importance of research work, but I do think that sometimes it leads us to ignore another kind of knowledge which comes from long experience, even if we have not tabulated that experience and cannot tabulate it. Of course there are people who would not venture to tell you which way the wind was blowing by looking at the bulrushes, they would first have to count the bulrushes and make sure that the majority were pointing in one direction. I remember a very celebrated Boston physician who told me that if a statistical study confirmed his idea, an idea that he had already had, he must distrust it; but if the statistical study disagreed with his idea, then he looked upon it with much more respect, because then it could not have been affected by his unconscious bias. I think this makes too important one form of research and gives too little importance to the other form. After living twenty-one years in an Italian and Jewish neighborhood I am convinced that there is more rickets amongst Italian children than among Jewish children. If a student came to me with the results of his research and showed me that it was the other way around, I would not believe it. I should go on thinking that there is more rickets among the Italians than among the Jews, and that he had happened upon an unusual lot of people of those nationalities.

All this means simply that there are certain things about which we can say that, while they are not proved scientifically, they stand to reason. It stands to reason that an eight-hour work day is long enough for any woman, and too long for some women. Take the eight hours from eight a. m. to twelve noon, and from half-past twelve to half past four, and add half an hour at each end for coming and going, so that a woman leaves home at 7.30 in the morning and gets home at 5.00 in the evening; I don't think we need elaborate physiological tests to show us that that woman is quite tired enough, quite as tired as she should be, to say nothing about her having time for outdoor exercise. I do not think we should be obliged to collect fumes and test them on animals, or to collect dust and look at it under the microscope in order to prove the danger of fumes and dust. I think we ought to be able to say that

working people have a right to work in a clean and fairly comfortable and decent place. Of course I spend all my working time doing just that sort of thing, trying to get a series of facts which will convince skeptical employers and legislators that certain things in industry are real dangers to health, perhaps to life. But I look to the day when my job will be no longer needed, when the working people will say, "It is not necessary for us to show that this dust is going to eat out our lungs, it is not necessary to show that these poisons are getting into our blood, or that a loud, continuous jarring noise will frazzle our nerves; it is enough for us to say that dirt is disagreeable, that fumes are obnoxious, that noise is wearying, and that these things are not necessary, and if the engineering experts will put their minds to it they can be done away with, and we intend that they shall be done away with." Perhaps that state of things is a long way off. I think I should have said so a year ago, but very strange things have happened in the last two months, and we do not know what the next twelve months will bring forth.

[162]

WOMEN IN INDUSTRY IN FRANCE DURING THE WAR

MARGUERITE BOURAT

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IT would be unfair to French women to think that war forced them into work. History tells us that they have always had their place among the laboring people. It tells us, too, that they had to fight against the men who pretended to monopolize all the trades, even the most unexpected ones for men to undertake.

As in every European country, the introduction of steam power which dispensed with the physical strength of the workers led to the employment of women as well as of children. Little by little, more by sheer necessity than by reason of ambitious aims, French women during the nineteenth century have invaded nearly every field of human activity. Out of a population of thirty-nine millions in round figures the last census that dates back to 1906 gives us the number of 7,693,000 women gainfully employed.

One reckons that 4,150,000 were wage earners while the remaining three millions and a half were heads of establishments either agricultural, commercial or industrial, or were professional women, lawyers, physicians, teachers, *etc.* It may be a tribute paid to the enterprising character of the women of France to say that in industry 32 per cent of the employers are women; in commerce, 43 per cent, and in agriculture, 47 per cent.

To appreciate the exact value of these figures one has to bear in mind that the total female population of all ages at that time was 19,745,000 and that the total population, gainfully employed, men and women together, was 20,721,000. Therefore the proportion of women gainfully employed, 7,693,000, amounted to nearly one-third of the total gainfully employed population and over one-third of the total number of French women of all ages.

In the classification of trades, for statistical purposes, the

industries are divided into fifteen groups, the fifteenth being commerce. Even before the war women were found in all fifteen groups in considerable numbers.

Needless to say that textile and clothing ranked higher in the scale and were industries in which women were chiefly employed. When the war broke out industrial life in France suddenly stopped, first, because nearly every man from 18 up to 48 years of age, employer or employee, was called to the colors. Secondly, because orders on hand were at least temporarily suspended. Moreover, commercial traffic was rendered difficult if not impossible owing to the use of the railroads for the transfer of troops. On the very first day of the mobilization thousands of women were out of employment, deprived of their own wages at the same time that they were deprived of the earnings of the husband, father or son taken into the army.

It was then that ladies belonging to the leisure classes willing to help in the war were urged neither to make shirts for the soldiers nor to knit socks, but to leave the work to the women in need of employment. Not only did they observe this injunction imposed on them, but they organized work-rooms where unemployed women could come a few hours a day and earn some money and generally get the noonday meal.

Clothes for refugees and also a portion of the soldiers' underclothing were made under these conditions. Relief was given out. After a few weeks, when the first battle of the Marne had been won, we witnessed a slight awakening of business. We have seen women taking the place of their husbands, opening again the shops and making an appeal to workers ready to come back. Also, in many instances, provision was made by the mobilized employer, anxious to retain his best hands, giving power to the forewoman to run the firm.

In spite of every effort, however, work in unnecessary industries was scarce. In October 1914, out of 11,000 establishments only 5,000 were open with a reduced staff. Work was scarce and divided up among a few and in most cases at a lower rate of wages than before the war. War wages then meant reduced wages.

Expelled from their main industries women were beginning to enter into new occupations; wives and daughters of mobilized

men having precedence. They came in the transportation industries at first, as conductors on street cars, then as drivers. Except for a few men all the employees on subways are women. In railroads any amount of women have been taken into various employments held before the war by men. In large stores only old men and mutilated soldiers can be found now beside the women who replace men in all grades of work from the cashiers and shop assistants down to the parcel delivery service.

French government positions in the civil service too, were opened more largely to women. The postoffice not only extended the number of women occupied in clerical work, but offered new employment. Postwomen can be seen walking along or riding on bicycles.

Women able to handle a sewing machine could easily find work on military clothing and in the making of bags, tents, masks, *etc.*—all accessories to the equipment of soldiers. A great part of the work was made at home and it is to secure those home workers a more decent rate of wage that the long wanted minimum-wage law was passed in July 1915. In the meanwhile plants for war industries were growing all over the country; shell, gun, ball, powder making, aeroplane factories wanted more hands than the army could afford to give out of the ranks of the fighting men.

Women workers were still available on the labor market and owing to a system of employment bureaus hurriedly and cleverly organized, all the unemployed could be directed to factories and find suitable occupations—about 15,000 women in 1915, 300,000 in 1916, and nearly one million in 1918 were so employed in munitions plants. Steadily every group of industry was taking in more and more women. No absolute statistics are available, but inquiries made from time to time by the Service of Factory Inspection of a limited number of firms can supply interesting information on that subject.

The last published results relate to 40,000 establishments belonging to the fifteen groups already mentioned. Taking for granted that before the war, each group occupied 100 women, we find the corresponding figures for 1915-18 as follows:

	<i>Jan. 1915</i>	<i>Jan. 1916</i>	<i>Jan. 1917</i>	<i>Jan. 1918</i>
1. Food industries	67	75	97	81
2. Chemical	66	111	146	148
3. Rubber, paper, cardboard	69	75	97	104
4. Book industries	54	62	73	74
5. Textiles	71	90	96	96
6. Clothing, straw, feathers	64	78	86	90
7. Skins and leather	69	86	103	111
8. Woodwork	55	100	137	161
9. Metal workers	167	545	727	781
10. Precious metals, gold, silver, etc.	49	70	76	86
11. Gems	48	68	71	79
12. Stone and building trades	40	79	86	102
13. Brick, pottery, glass	45	66	79	84
14. Transportation and packing... ..	118	296	530	530
15. Commerce	68	91	97	102

It is quite noticeable that while employed in smaller number in industries which were theirs before the war, women are far more numerous in groups such as metal industries.

These 40,000 establishments which before the war employed 470,000 women had about 600,000 in January 1918.

Have the women proved themselves efficient in the new occupations open to them? Undoubtedly they have. Engaged chiefly for unskilled work they have shown themselves so quick, so often clever and eager to learn more, that processes of higher standard have soon been entrusted to them.

Employers all agree that they have a special ability for minute work requiring refinement, thought and attention. In the accomplishment of their task they are somewhat more conscientious than men to whom they are obviously inferior only in heavy work because of their less physical strength. Comparing French women to foreign women employed side by side, it has been repeatedly found that the output of the former was about double that of the latter. Moreover, experience has proved many a time that for certain mechanical processes it was possible to trust only French women.

Pre-war protective laws to be observed by employers of female labor were somewhat neglected or abandoned at the beginning of the war. The 10-hour day, the one-day-a-week rest, the prohibition of night work, forbidden processes and so on were tacitly abandoned under the stress of circumstances in the new industries opened to women.

After some time the number of women workers being larger and larger and peace not being yet in sight, it was felt that for the welfare of the women and of the race at large it was necessary to revert to the existing laws and even to make special rules for the women engaged in war industries.

A committee composed of medical men, representatives of the government, of employers and of employees, was formed at the Ministry of Armament to examine what could be done to ensure better conditions without hampering the production of munitions. Recommendations were formulated and the Minister of Armament published certain rules to be complied with in war industries. Unfortunately night work could not be dispensed with yet, but the three 8-hour shift system was generally adopted, so reducing the working hours.

Provisions were made for expectant mothers. They were not allowed to work four weeks before confinement, nor four weeks afterwards. Provisions were made also for nursing mothers and for their babies. By law they are given half an hour every morning and half an hour every afternoon for nursing their babies, and every employer of one hundred women over fifteen years of age is obliged to have a nursery for the babies, where the women can go at the specified hours. That is a permanent rule now embodied in our labor laws.

Moreover, lists of the operations to be done by women were carefully drawn. Because of the unavoidable shortage of men the processes left exclusively to women were still heavy. Employers devised means of making the work easier and lighter.

The employment of female workers has led undoubtedly to improvement of machinery and also to better management and to a more scientific division of labor. Because of that change it has been claimed that a woman does not do exactly the same work as a man and consequently that she is not entitled to exactly the same wage.

When women came into new occupations they were given lower wages than men, on the ground that they had no experience. After a year or two such an excuse was no longer plausible. In fact wages have steadily risen since 1915, and it may be said that the actual average earnings of women are higher than were the average earnings of men before the war.

In Paris and in big towns the average earnings of a woman working in war industries are from twelve to fifteen francs a day, and in smaller towns in the country it is from eight to ten francs a day.

Would the wage be equal if a man and a woman were now engaged in exactly the same work? It is difficult to make comparisons for the aforesaid reason that employment of women has led in most cases to a real transformation in methods.

After an inquiry made by the "Statistique Générale de la France" it has been stated that the increase of wages in mechanical, metal, leather work, *etc.* has been 38 per cent for women and only 25 per cent for men, while in industries of least importance for the war, clothing, laundry, *etc.* the increase has been 22 per cent for men and only 16 per cent for women.

In the case of these latter industries the first step has been to revert to pre-war wages to which afterwards was added a small allowance to meet the increase in the cost of living.

These advances of wages have been obtained in unnecessary industries chiefly through strikes among women who at the same time claimed a Saturday half-holiday. In the clothing industries this was granted to women by law in June 1917.

Now that the war is ended, war industries are in process of demobilization. What will become of the women engaged in them? This is the question pending in each belligerent country. France having been the main battlefield may be for that reason in a somewhat different situation. France has to face a manifold problem. Two millions and a half of men have been killed and disabled; therefore the reserve of men laborers is greatly impaired, and industry will feel it deeply during the coming period of material reconstruction. On the other hand we have an army of women who for nearly four years have been trained in various occupations which can be turned to the benefit of much-needed peace industries.

A few of those women have become fully skilled workers and a very large number are semi-skilled. On the whole they have all proved to be efficient. There has been an increase of about 20 to 25 per cent of women in the labor market.

We understand that some of them, happy to see their

home restored, will return to it. We feel sure, also, that a fair number will be reabsorbed by their former trades. But there are widows with children to bring up. There are wives of disabled soldiers and there are women that war has doomed to be self-supporting.

It is always dangerous to make prophecies. However, it may rightly be assumed that a woman having acquired a trade in which she can earn a good living will be reluctant to leave it if she is the main breadwinner of the family, as will often be the case after the war.

Moreover, female labor will not in France turn male labor out. It will simply eke out the number of hands wanted in expected prosperous times. We can scarcely speak of competition between men and women. Skill and ability will be needed no matter if supplied by a man or a woman. It does not seem possible that a question of sex rivalry will arise in a country where men and women contributed both with the same enthusiasm to the national defense, and let us hope that on economic grounds simple common sense will overcome all obsolete prejudices.

WOMEN IN INDUSTRY IN ENGLAND DURING THE WAR

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I FEEL that in talking on this subject of our women in the war I have to go back, before going definitely into the problems that we are all talking of—the problems of reconstruction.

To take this very briefly, as I must, I want to look broadly at numbers first. We had when we entered the war, over five and a quarter million women returned in our industries. The number now is over seven million. In the main industries whose figures we have, the number of women entering industry since the war is about one million three hundred thousand. You have to deduct from that figure of course the numbers that would normally be added to our women in industry. There have been for years past additions of female labor every year, so that the full figure does not really stand as the new war addition to our labor. You could put it down somewhere about a million as representing what is really the additional labor used, including the professions right down to industrial and domestic work in the country. If you look at the exact figures of additions, if you take a figure like the women in finance and banking, we find we had about twelve thousand when we entered the war, and that we have now seventy-two thousand. In government departments we jumped from eighty thousand before the war to about one hundred and ninety-eight thousand. If you take figures that we get from munition plants—and again that is the creation of war—we find that we are employing—the figures vary according to what is included in the word “munitions,” if you include clothing and every kind of munitions, it goes up to about a million women in the whole of the work. So, you can see that we have organized and used woman power to a perfectly enormous and wonderful extent in these years. What our full production is we have not really known, because a certain

amount of our production, as you know, was secret production. For instance it is only today that there is a statement made about cruisers which we built in the war. We did not say during the war that we were building naval tonnage with very great rapidity. We never gave figures of aeroplane or of munitions. They were built, but the figures were not given. However, we do know that the productive power of our people, with the millions of men gone—somewhere about six million men out of our islands gone into the fighting forces—has been enormous, and it is in volume estimated as being a higher production than we had had.

We had throughout our trade unions a very definite policy, what they call the "Ca'Canny", restriction of output policy. You know something of the processes by which we got agreements between the government and the trade unions for this great dilution of skilled labor with unskilled men and with women, entering into the great industries like the engineering trades, but the masses of the new people were just going in to learn one special piece of work, just one branch of it, and take their place in the work of turning out what was needed. One of the industries in which women have perhaps most notably aided in production, is the shell industry, where for the last two years roughly, although not quite ninety per cent of the shell work was being done by women. The production of women in many cases on these machines was really higher than the production had been; though again, as the men here know, it is impossible to get in the main really very exact comparisons, just as it has been impossible to say that taking the masses of women in those trades, they were doing what men did before, because the work has been subdivided, new work has been created, and it has been very difficult to decide, except in skilled work and in certain cases, such as in oxy-acetylene welding, where women have been working, and in certain other definite pieces of work, where we can really judge of her exact production and work.

If you leave production during the war—and as I have said the production of the women has been very wonderful—and turn to the problem of the conditions under which this production was done, and take our old standards of work, we lowered one great standard of ours in this war. In 1844 we

passed our act that women should not work at night. During the war women did work in large numbers in our munition plants at night, in night and day shifts. That has been one letting-down of standards that we have done in this struggle. People have said—and I don't know in one sense whether it is really fair, it is well to remember we were in a very desperate position—and people say we acted in the first part of the war in a sort of spurt, as if we believed it would soon be over, and we could throw everybody in, the soldiers and the workers, throw them into work just as hard as they could, believing that this spurt would finish the war. Well, there may have been something in that view of what we did. I think there is also the fact, as I say, that there was desperate need and as you know we did not possess the factories, arsenals and plants necessary until they were actually built and made over for war work. We had very heavy conditions among the men, where some went into the shipyards on Friday night and did not come out literally until Sunday morning. I have known of foremen who worked 94 hours a week for the greater part of two years in our country; and the most impossibly heavy work was done, chiefly, as I have said, by our men, and chiefly of course by the skilled men, men like the foremen in the plants. But the women also have in many cases had long hours. The Woolwich Arsenal women's hours are roughly twelve, including their meal hours. Looking at them it is very difficult to get a text for talking about overwork and hard-driven people, because despite the work, they look extremely well. That brings us to another feature that we have vastly improved in the general conditions of our war work. You all know of course that before the war we had our factory acts, and we laid down very definite principles about our overtime. We had our women inspectors as well as our men; our acts made definite conditions for all factory life; but we did not possess welfare workers to any extent at all. When Mr. Lloyd George became Minister of Munitions, and set up the ministry and started on the dilution problem, he set up a department under Arnold Rowntree to deal with the welfare problem. They have carried out a policy that I think you know broadly, of putting into all the government's plants and into the controlled plants under the ministry, which num-

bered about seven thousand, women whose duty it was to look after the welfare of the workers in the factory. Our ideal always was that the women used in the management scheme should be the persons who took up the work of hiring and dealing with the question of employing and dismissing. The welfare work has included a great deal of canteen service, the serving of meals to our workers, along the lines of your cafeterias, and the canteens have been extremely successful, and have of course worked in with our other problems of saving food, because it is a great saving of food to have it done in that scientific way. The first attempt to help the men—again it was the men chiefly who suffered in the early days—was done by some of our own voluntary societies, the women going down through the night shifts and giving the men coffee and sandwiches, and what we could, in order to give them what they needed.

The criticism of our welfare workers, to take the other side, has come from trade-union women who believe that all of these welfare women in the factories should be government officers, that they should not be paid by the employer, because they contend that that nullifies to a certain extent her will and her power to make changes. But I think any fair observer of our conditions will say that the welfare work among our women, and in general, the humanizing importance of the work has been very marked indeed during the war. The women have worked heavily, and there is one other group of our people who, I think, have had very heavy work in the war, the young boys and the girls, especially the boys. The boy whenever he left school in our country was put to work. The farmers in the rural districts have used their local powers to take boys away from school in the early months of the summer and put them on the land, so that there has been a big fight about the treatment and use of the quite young people of the country; and we have had to watch very carefully to protect the young girls in plants who have been used sometimes, as inspectors tell us in their reports, in a way that they should not have been used, in order to get the full use of labor that could be got. So, we have that to deal with.

Now, to talk of the children, the Fisher Education Act, which

has just gone through, is going to destroy forever a thing that I feel has been a disgrace to England for years and years past, and that is the half-time system in Lancashire. For years I never used to make a speech without attacking it with great vigor, and when you did that in Lancashire you would be amazed how people would rise up and defend it. That is going to be put an end to.

You know how we have dealt with our munition people, particularly in the matter of housing. Gretna, for instance, is a new city. Eltham in Kent has been built up, and some of the naval bases; the government has done a great deal of building, and is housing the girls in great buildings, like the Coventry houses that hold about one hundred to two hundred girls. They have been looked after by welfare people, and that has been another section of our handling of women in the war.

Then there is the great question of wages, which I gather you have also, as you have spoken several times of our old minimum-wage boards, which really were established to deal with our sweating conditions, and in the war the question of women's wages has naturally been, as everywhere, a question of great contention. One of the means devised to meet it, circular L 1, a resolution enactment, was passed by the Ministry in agreement with the unions at the end of 1915, and it was enforced, laying down the principle that piece and time rate work, skilled work, should be paid for exactly the same for women as for men. In the case of the oxy-acetylene welders some means were devised to secure the enforcement of that principle now and then; but if you take the broad condition we do not find, if you take all our women in munitions, and so on, that they are paid at the same rate even if you try to allow, as you must, for the difference in work. Some people estimate that broadly the difference in payment comes down to somewhere around four dollars a week.

We all know the wage boards of the government—we know their work in settling the amounts of bonuses to be added to the worker's wages; additional bonuses, revised each three or four months, to meet the cost of living. One of the recent strikes of our women, the strike of the bus girls

in London, was not on the question of wage. There is no tramway or railway system in our country employing women that does not give them the same wage as the men. That is true, but when the bonuses were given out, when the last bonus was due in London, they made the bonus apply only to the men and left the women out, and the women struck for the additional bonus. They were supported by the trade-union men who struck with them, for they contended that the only safety for our men after demobilization is this equal standard. They say that if the women are going to have a lower payment than the men, the men will never get the positions back. If you take the whole country we are, as I suppose every country is, a curious jumble on the question of equal pay. If you hold any executive post in our country, the women receive equal pay with the men. Before the war our insurance commissioners, our women, received \$5,000, just the same as the men. I know of no woman holding an executive post in the war where she did not receive the same as the men in the departments. Frequently they received higher, if they were on a higher plane than the men in the department work. If you take the higher professions, like medicine, you have the same standard. If you move into teaching during the war, the treasury has given a higher additional grant in order to secure higher payments for our teachers. We find the amazing fact that the National Union of Teachers has never declared in favor of the principle of equal pay for equal work, although every other teachers' organization has. In this period of adjustment and reconstruction that we are coming to, I know that part of our problems will consist in working at this problem of payment to women. We have groups, incidentally, in our country who believe in some system of endowment of motherhood, and we have other groups, quite an active group, who contend that a man is in a different position as regards payment; but the majority group contends that the only sound principle is to pay for the work irrespective of the sex of the worker. That is going to be one of our questions.

Most of you I am sure feel as I do that you cannot talk of the problem of women in industry now without realizing that the whole question hangs on our policy in dealing with the problems that we are confronted with at this moment.

You cannot talk about what possibility there is, for instance, of our women being flung out and suffering hardships, you cannot talk about that apart from talking of our financial policy after the war, what we are going to do to get our currency right, to cut down the inflation, what we are going to do as a country to encourage new industry, what we are going to do to assist us to find our markets in the world. We cannot think of the problem of women except in relation to the whole great policy of our country, and I am one of those people who believe that if our own country handles the conditions with which we are faced now wisely there is no really serious problem at all, because I maintain that there is work for all, for all of the women who wish to stay in work, and for all of the men. We have altogether in our whole Empire about a million dead, and about eighty per cent of them are our own island dead. We have about two hundred and seventy thousand disabled men. You can see that if we do the work that is clamoring aloud to be done in our country there is great work for all of us. We need at least three hundred thousand houses in order to give us the houses that we must have, that our young wives and the husbands returning from the front must have in order to begin house-keeping. We must develop our transportation, and I believe it is clear that we are going to nationalize our railroads, hold them as government industries. That seems to be emerging at this election. We want to develop transportation, to develop electric power and those schemes of housing which are going to be partially financed by the treasury. We want afforestation, and that is the kind of work we feel can be done, if there is any period of depression, as we go along. You may say, as people have felt it right to say, "What is the possibility of your people's purchasing power in connection with those schemes for doing great work within the country?" Well, when we started in this war three hundred and forty-five thousand of our people held government securities, consols. Now that we have finished the war seventeen million people hold these war bonds of ours, and if you go by saving, our workers never saved anything like the sums which they have saved in this war. If you will take the ordinary working-class home in our country, every one

of them possesses war savings certificates, and many of them bonds. We have sold through the post office alone in a year—that means very small purchases—over a billion dollars worth of these certificates and bonds, and we know that our people, broadly speaking, have benefited by this war, that standards have gone up. Take one other practical fact, the feeding of school children. We used to feed the necessitous school children. Since the war in the great cities like Birmingham and Cardiff, if you ask what they are doing in the feeding of school children, you find that since 1917, so far as I can find out, they were not being asked to feed the children in any numbers; so that we feel, as you do, that during the war we have established infinitely higher standards for our workers, and I can assure you that our democracy has determined that it shall not come down. We have an electorate of sixteen million people now. That includes six million women, which is to us a guarantee that the problems of women will have to be considered fairly and justly in this reconstruction period. I would say that thinking of women as of men, you cannot solve industrial problems by thinking only in terms of wages. I can remember in South Wales, feeling that there was not much use in going on as the miners did, wanting more and more wages, when as a matter of fact what the miners needed was not more wages, but decent housing, and other things. What is the good of wages if it is not going to give the workers the right kind of social conditions; and what we are anxious to do, as some one has said, is to live out the ideals for which we have been fighting. All that we have been saying is literally so much cant if we are not going to make our own country a better and finer place in which to live. We who have these great and difficult problems to handle should realize that they range from the great problems of international finance and trade, and the use of materials, the whole capital of the country, down to the problem of dealing with your child in the school and fitting it for life, and dealing with the health of the people—and we are going to establish a ministry of health. I think we are going to keep this as a standard, the principle that we must secure for our people not only this living wage, this decent wage, but we

must secure for our people the things for which they can spend their wage that will give them decent homes, decent surroundings and leisure, and that our education may do that greatest of all things, teach them to make a right use of that leisure. Thinking of our women who have played a very great part in helping us through this struggle—I think of the women who have been serving and working—and looking at your women who have worked so hard, looking at them going forward into the more difficult problems that lie before us—because they are in many ways really more difficult than those we have been through—I think we will be conscious that we have to take into account every side of this question; we have to consider all conditions of wages, of homes, of health, of the whole problem of how we intend to build our civilization; and I feel that what this country does, and any experiences we have, are helpful to each other. I feel that these two countries of ours, in many ways very similar, working out the same problems of adjustment between labor and capital, can help each other and can learn much from each other.

[178]

II

WAR LABOR STANDARDS AND
RECONSTRUCTION

AMERICAN LABOR READJUSTMENT PROPOSALS

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FOR nineteen months the American people have thought wholly of war, of the need to speed up their military machine and of mobilizing their industrial army, essential to the winning of the war. No effort or sacrifice was too great in support of our nation's participation in the world conflict.

With hostilities suspended and the concluding of peace a matter only of imposing terms upon the enemy, our country has entered upon a new era in which the work of restoring the normal order of things may be quite as difficult as has been the task of increasing the country's war efficiency. Indeed, it is in many ways far easier for a people to shift from a peace to a war footing than it is to reverse the action. In the former instance, there was present stimulus of Government contracts, Government service and Government control, supplemented by the spiritual stimulus of patriotism. In the latter case, reliance is placed largely on individual enterprise.

In the prosecution of war the Government can dislocate industries by direct action for war purposes. In readjusting industries to the purposes of peace the Government's power to command is largely restricted and these tasks are left almost entirely to private initiative and control. It is then that the Government's chief functions lie in providing safeguards for the workers and soldiers who have sustained it in its hour of stress.

We have been brought abruptly face to face with the problem of readjustment. Upon the right solution of these problems depend the welfare and happiness of the hundred millions of today and the hundreds of millions to come after them. The tremendous task before us calls for clear thinking and unselfish statesmanship, and leaders who can look beyond party political advantage or expediency, no matter how alluring may be their platforms or programs and however attractive their appeal for the complete arrangement of the world's social order.

While there is much in the program of reconstruction approved by the British Labor Party worthy of commendation and emulation, we must not be unmindful of the fact that our domestic problems and the relations of our people to our Government are quite different from those found to exist in Great Britain. With an entirely different political arrangement, with our dual form of Government, our federal and forty-eight state sovereignties, each jealous of its functions, authorities and constitutional safeguards, with the power of government separated into three distinctive departments intended and devised as checks upon each other and restrictions against usurpation of authority not delegated to them, with a people composed of many different national and racial extractions of different customs and habits, and with our nation so largely divided into two great groups of our citizens engaged in agricultural and industrial activities, we have indeed a situation distinctively peculiar unto itself.

Of course to those who have come to be styled as advanced thinkers, or so-called intellectuals, these obstacles may be easily swept aside as if by the waving of a magic wand and to these persons the complete reformation of the world's social order may be readily secured simply by the formation of a labor party directed and led, of course, by the selfsame intellectuals and advanced thinkers. However, to experienced men of affairs and of labor, men who do not depend for their livelihood on the writing of well-constructed sentences and high-sounding phrases and who do not seek under the cloak of a benefactor or philanthropist to obtain political office, or some other public or private emolument, but who are earnestly striving to help uplift the less fortunate and less intelligent, the ill-fed, badly clothed and housed, underpaid, as well as the unemployed, workers in a practical and substantial way, these distinctions in government and differences of governmental functions present problems which can be dealt with only in a common-sense way and by a practical procedure, and not by an appeal to sentimental paternalism.

The American Federation of Labor has not been unmindful of the problems which come with a condition of peace, and at its last convention, held in June of this year, a committee was organized to study these problems. Inasmuch as this com-

mittee will submit its report very shortly, I shall not attempt to speak in its behalf, or that of the American Federation of Labor, but will submit the following proposals for stimulation of thought and consideration :

Under the necessities of war, the Government has increased and extended its functions. The era of reconstruction will undoubtedly witness a prolonged struggle between the principle of state control and voluntary individual control, or through associations. I have accepted for these proposals the principles of national safety and welfare, national prosperity and national development.

Accepting as a basis that industries vital to national safety and welfare should be under some form of national influence, and yet not interfere with the rights of states, I have not attempted to define the limitations of this national influence, neither do I venture to restrict the national influence of industries to any general form, or to any pre-war doctrine. It is my belief, however, that where the Government intends and does rightfully exercise its influence to promote and stimulate or protect industrial, commercial and agricultural pursuits, that the application of the basic principle is justified that the Government may prescribe the conditions, which must be fully observed for the protection of the public interest, that of the workers' health and welfare, and their right to an impelling voice and active participation within such industrial, commercial and agricultural pursuits.

National Control of Services and Industries Vital to National Safety

It is of the greatest importance that we first determine whether those services and industries vital to national safety, or of which an uncontrolled monopoly would prove dangerous to the national safety, shall be either owned, controlled or regulated by the national government. Included among these for consideration are the railways, steamships, canals, all essential means and facilities of transportation and navigation, stock yards, grain elevators, terminal markets, telegraphs, telephones and all other public utilities, irrigation plants, mines and production of electrical and water power, as well as gasoline and other essential fuels.

By the control of the national transportation and production agencies during the period of reconstruction, on which the commercial, industrial and agricultural life of our nation is dependent, all national labor, industrial and agricultural policies for the reconstruction period can be effectively applied without undue interference with state rights. Consideration should likewise be given to the development of basic natural resources and unused lands; with the repartition of large holdings, to afford the returning soldiers and dislocated war workers an opportunity for an independent livelihood.

The American Merchant Marine should be encouraged and fully developed. The merchant marine must be so manned as to insure its successful operation during the period of reconstruction. The seamen should be assured their full rights as free men and given every opportunity of improving their employment. They should be accorded the same rights and privileges of wage earners in private employment as well as those engaged in occupations, encouraged, stimulated or protected by the national Government.

Demobilization and Shifting of War-Industries Workers

Demobilization of the army and navy and the reabsorption of the men into industrial pursuits as civilians are intimately related to and inseparably involved in the shifting of workers engaged in war industries to peace-time pursuits. Both problems invite extended and severe conditions of unemployment, unless intelligently and effectively dealt with under national influence.

In disbanding the armies of the United States we must concern ourselves not only with the physical distribution of the soldiers to their homes, to their business, and to the industries, but we must be prepared to meet and to satisfy fully the mental, social and spiritual changes which will be inevitable in the returning of our troops.

Demobilization of the army and navy and the reabsorption of the men into industrial peace-time pursuits should be so guided as to avoid bringing into existence a condition of extended and severe unemployment, and an oversupply of labor in any one or all trades, occupations or employments.

The process of demobilization should be gradual, consistent

with and conforming to the progressive development of the industrial, commercial and agricultural needs of the nation.

Injured sailors and soldiers, unable to follow their former employment, should be given a full opportunity at the expense of the Government for training until fitted for employment under fair, reasonable and acceptable conditions of work (this reconstruction work, I understand, is already under way).

Soldiers and sailors of particular trades and occupations should receive preference in employment to men untrained in their respective callings, with the possible exception of injured and trained soldiers and sailors, who must receive the most generous treatment and facilities for securing suitable employment.

The shifting of war-industries workers to peace-time pursuits presents grave dangers, unless provision is now made for the gradual reduction of war industries under national control or regulation to prepare and enable them immediately to undertake peace-time pursuits at the conclusion of the war. It is essential that war-industries workers are not released without provision being made for their sustenance and ready facilities in getting to centers offering opportunities of employment.

Pre-war processes of production should be restored in so far as it is practicable and possible.

The same patriotic appeals, which have so largely attracted women into industries during the war period, should be continued after the war to secure re-employment of soldiers and sailors in the positions filled by women workers during the war. Unless this is done, the patriotic appeal to women workers of today can only be looked on tomorrow as having been a carefully devised instrument of private employers to arouse antagonism, friction and to develop competition between men and women in our industrial life.

Likewise the further exploitation of child labor should be immediately and effectively prohibited under any and all circumstances. During the war and even before the war we have permitted the taking of our children out of the schools when there was no reason or necessity for it whatever. Let us not neglect longer the humane factors and protest against further exploitation of our children of today—the citizens and workers of tomorrow.

Immigration should be restricted during the period of adjustment.

Industrial Readjustment

The successful process of gradually demobilizing the army and navy, and the shifting of workers engaged in war industries, depends to a large degree on the process of converting war industries to peace-time pursuits; the reconstruction of industries curtailed by the war; the development and encouragement of new public and private enterprises, the development of foreign trade and extension of foreign markets, and on an improved agricultural policy.

National assistance and stimulus may be granted to any industry essential to the national interests, safety and well-being:

- (a) When the industry is threatened by competition of imported commodities of a nation failing to observe proper and acceptable labor standards of production and distribution.
- (b) Where an industry suffers from imported commodities, of which the selling price in the United States is lower than that which prevails in the country of its origin, and having for its purpose the destruction of domestic manufacture or production.
- (c) Where stimulus is necessary for a limited period to surmount temporary adverse conditions in existing industries.
- (d) Where stimulus is necessary for a limited period to encourage the development of new enterprises promotive to the national safety and well being.

Public improvements, state as well as federal, should be encouraged and assisted. States should be assisted in providing proper housing for the workers and be given aid in the erection of public buildings, the building and repairing of roads and highways, and other desirable public improvements, by federal grants conditioned upon the states providing an equal amount to carry on these improvements.

Re-forestation, reclamation of deserts and swamps, building of railroad terminals, adequate passenger stations and the development of canals, ports and waterways should be undertaken.

Foreign markets should be developed and encouraged, and foreign trade facilitated by the upbuilding of the merchant marine, extension of credits, *etc.*, and in every other possible way.

Agriculture and stock raising are essential to the national safety and well-being, and provision should be made to insure:

- (a) An increase in the agriculture and stock raising population by encouraging and assisting small holders (by loans, *etc.*) wherever possible on a co-operative basis.
- (b) By the granting of special assistance to soldiers and sailors in the direction of allotment of lands and their establishment of homes on the public domain.
- (c) Development and improvement of transportation and storage facilities wherever possible on a co-operative basis.
- (d) Establishment of public experimental farms and measures for agricultural stock-raising instructions.

Irrigation of arid lands should be undertaken and encouraged.

Industrial Relations and Standards

Inasmuch as the workers perform so large a service for society, the human side of the workers' life should receive full consideration. Autocratic domination of the forces of production must give way to the democratic control of industry and commerce for the general good by those who work with hand and brain. No agency of government, municipal, state or federal, and of industry and agriculture, should be constituted without the representatives of workers as part of that agency. The workers must be guaranteed the unqualified right to organize into trade unions and deal collectively through their own chosen representatives.

The working day should not exceed eight hours or forty-four hours a week.

To avoid suffering by the workers in the possible attempt to reduce wages, necessary steps should be taken to prevent the standards of wages in any trade or occupation, from suffering in reduction in relation to the contemporary cost of living, health, education and reasonable comfort. Indeed, the minimum wages paid should in all cases be sufficient to maintain

the worker and his family in health and comfort, and provide a competence for old age, with ample provision for recreation and good citizenship.

There must be complete equality of men and women in government and industry and equal pay for equal work performed by men and women.

All restrictions on freedom of association, freedom of speech, freedom of publication, freedom of public assembly, freedom of travel, and choice of employment must be completely removed. These fundamental rights must be set out with clearness. They shall not be encroached, interfered with, or entrenched upon in any manner, or by authority, municipal, state or federal.

The enforcement of national labor policies, rights, standards and relations may be efficiently brought about by any of the following methods, either singly or in combination :

- (a) Control and regulation of interstate commerce.
- (b) Ownership, control or regulation of railroads, canals, and transportation and navigation facilities.
- (c) Ownership, control or regulation of mines, electrical and water power, gasoline and other essential fuels.
- (d) Stimulation and support of private enterprises and agriculture through loans, preferential transportation facilities, exemption of co-operative arrangements and relations from anti-trust laws, *etc.*
- (e) Supervision of capital issues and federal incorporation.
- (f) Tariff regulations.

Wherever governmental aid, or other form of stimulus is granted, or protection is afforded in private enterprise, such aid, stimulus or protection, should be conditioned on the clear and specific understanding that the following fundamental principles and standards of employment must be fully observed at all times and the submitted procedure of adjustment strictly adhered to wherever the workers elect to avail themselves of these agencies :

- (a) The right of workers to organize in trade unions and to bargain collectively as such.
- (b) The right of employers to organize in associations or groups to bargain collectively with trade unions.

- (c) Employers shall not discharge workers for membership in trade unions, nor for legitimate trade-union activities.

The standards of employment should include the following :

- (a) Eight hours shall be the maximum number of working hours of labor to be required within one day or forty-four hours within one week, excepting in extraordinary emergencies, in which case extra compensation shall be provided for all time worked in excess of the hours herein stipulated.
- (b) Minimum wage scale for all workers, including common laborers, shall be such as to insure the subsistence health, education and reasonable comfort of the worker and his family, and to provide a competence sufficient for old age, recreation and good citizenship.
- (c) Children of less than 16 years of age shall not be employed.
- (d) Women shall not be permitted to work between the hours of 10 P. M. and 6 A. M.
- (e) Equal wages shall be paid to women as to men, for equal work done.

Mediation and Conciliation Boards

Where controversies arise between employers and employees in fields of production in industry and agricultural activities receiving governmental aid, stimulus or protection, an attempt shall be made to adjust such difference or differences through voluntary, state or federal agencies of mediation and conciliation, which are now, or may hereafter be created. Such provisions, however, shall not in any way interfere, limit or restrict freedom of collective action.

The employees engaged directly or indirectly under, by or through government contracts, whether engaged on the finished commodity contracted for, or engaged on the materials, supplies, *etc.*, or rendering service which enters into and is involved in the production or transportation of the commodity contracted for, shall be granted the same rights, be guided by the same standards and be subject to the same procedure of adjustment whenever a controversy arises between employers and em-

ployees, as is provided in industrial or agricultural pursuits receiving governmental aid, stimulus or protection.

Government employees shall be granted the right to organize, to present individually or collectively whatever grievances may arise, petition Congress or the president for redress of any grievance. They shall be granted full rights of citizenship and aspire to and hold public office, if the performance of the duties of such public office does not interfere with the rendering of efficient services required as a government employee.

Wherever employers and employees signify their intention to and do accept and respond to the rights, standards and procedure provided for enterprises receiving governmental aid, stimulus or protection, such employers and employees, may be permitted to enter into collective trade agreements, permitting the fixing of prices of commodities or for services rendered to the public, and in other ways establish co-operative relations between competitive firms and their employees by giving public notice to and receiving sanction from an authority designated by the government for that purpose, subject, however, to review and regulation by the government whenever occasions warrant or conditions demand.

Compensation laws should be amended to provide adequately for those incapacitated by industrial accidents or occupational diseases, who are now in many ways imperfectly cared for.

State insurance should supplant the system of private casualty insurance companies to insure employers and employees that premium paid shall go in full to the injured workman so that no one will be permitted to profit by the misfortunes of industrial and agricultural activities. Soldiers' and sailors' insurance should be continued after the war and consideration should be given the subject of providing life insurance by the Government without profit to all men and women.

Wherever state or federal employment agencies are established, they should be placed under the supervision and control of a joint committee of employers and trade unionists of equal number and should co-operate rather than interfere with the international and local trade-union agencies.

Federal and state governments should establish adequate standards of health, safety, and welfare, for the workers, pre-

venting employment of children under 16 years of age, and prohibiting the employment of women between the hours of 10 P. M. and 6 A. M.

Protection of Consumers

Wherever it appears that prices of necessities of life and of industry and agriculture are abnormal and unduly high, or an unfair distribution thereof seems to prevail, or the production seems to be arbitrarily limited or restricted, the Government shall have the right in each particular case to investigate, inspect the books, ascertain the cost and output of production. If found necessary in the public interest, after a hearing and report, an authorized agency of the Government shall determine the conditions under which, including the fixing of a maximum price and a fair method of distribution, such commodities or articles of trade will be admitted to interstate commerce.

Public co-operative markets, means of distribution, storage facilities and purchasing associations should be encouraged and assisted and all wasteful and profiteering methods in the creation and distribution of the products of industry and agriculture should be eliminated.

Education

In addition to the encouragement of the successful promotion of federal vocational educational plans now in vogue, and the elimination of all labor dilution plans in operation, maintenance allowances should be granted in respect to children who have lost their parents before having reached the age of 16 years, particularly those having lost their parents in the war, and where the parents have not entered civil life and peace-time employment on a self-sustaining and self-supporting basis.

Dental, optical, medical and surgical treatment of school children should be provided under governmental supervision.

Vocational training, which should be encouraged, shall not contemplate or permit specialist training in a single operation, giving speed in that operation without adaptability or knowledge of the process as a whole, and thereby making the worker merely an adjunct of the one machine he is trained to use.

Vocational training and education should include the teach-

ing of the sciences underlying the various industries and the industrial pursuits being taught and their historical, economic and social bearings, and labor as well as the organized teachers should be given the opportunity of participating in the determination of methods, policies and programs in the educational field.

Taxation

There should be provided a progressive increase in taxes upon incomes, profits, inheritances, and unearned increments to afford a transition to greater economic equality, and supply means of liquidating the national indebtedness growing out of the war and to maintain on an efficient basis the future national activities of the Government.

The system of taxation which should govern ought to be one to yield all the necessary revenue to the government without encroaching upon an improved minimum standard of life of any family whatsoever and should not hamper production or discourage any useful personal effort.

Conclusion

It is not suggested that these proposals entirely cover the field, nor that each individual proposal completely covers the particular subject to which it relates.

We are fast coming to the realization that in a true democracy there must be both economic, as well as political equalization, and, therefore, any intelligent, fair, democratic plan of reconstruction must embrace industrial efficiency with democratic industrial control.

The more thoroughly the questions involved are studied, the more one becomes convinced that this subject of readjustment is fundamentally a human problem, and that it should be invested with the human touch throughout and with the chemistry of common sense. It is a problem for the human heart as well as for the human brain. It is a problem that must be solved by the present generation, ever bearing in mind the welfare of generations to come and the continuing nobility and integrity of the state.

BRITISH LABOR RECONSTRUCTION PROPOSALS AND THE AMERICAN LABOR ATTITUDE

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WHEN the paper on American Labor Readjustment Proposals was read, I must confess that my heart failed me. It seemed to me that there was no real room in the discussion for an attempt to examine the relation of the British labor program to American problems. For, at the very outset it dismissed the program as that of mere armchair critics, the effort of intellectuals occupied rather with an attempt to obtain on their behalf the control of politics than to assist British labor. It was only as the paper continued that I began once more to pluck up heart. The program of the British Labor Party was handed out at the front door at the beginning of the address; but somehow or other, perhaps a little strangely, it managed to creep up the back-stairs at the end. There were, indeed, few proposals in the latter part of his paper not included in the actual platform of Mr. Sidney Webb and his colleagues.

I should like to approach the problem somewhat differently. I agree, indeed, that the proposals of the British Labor Party have little of that thorough-going applicability to American conditions that a superficial examination would seem to suggest. I speak as an Englishman, and of course, therefore, I speak as one in some sort out of touch with American tradition; but I think that it is very difficult for an American to understand how very special is the effort of the British Labor Party, how definitely that effort is related to a peculiar environment, and how impossible it is, as was rightly urged, to transplant that environment to American conditions. British labor is essentially political as well as industrial in outlook; and the trade unions are, as a consequence, able to exert an influence upon the two traditional parties in the state which no man may neglect. That has meant, in the course of the last half century, that men of intelligence outside the Labor Party, men

like Mr. Frederick Harrison and Mr. Sidney Webb, have devoted their energy to the service of labor. They have therefore secured the integration of labor ideals in England into a more definite working philosophy than is the case in America. Nor is that all. English labor, in the course of the last fifteen years has become a political party which, with all its defects of outlook and limitations of power, now stands in the position where it can issue challenge to any party in the English state. I do not suggest that it is in the least likely that in the next few years it will be the dominant party in the House of Commons; the servitude of the middle class to ancient traditions goes too deep for so fortunate an issue. But I do say that it is the one British party at the present time with a definite program to put forward. It has a support from its adherents such as can be claimed neither by those who follow Mr. Lloyd George on the one hand nor the remnant of Mr. Asquith's party on the other. It is a support to be found in the university not less than in the workshop. It is a support not less of the economist than of the trade-union official. Its nets are cast wide among the mass of men.

Such a situation is totally different from that of America. The American Federation of Labor, for good or ill, has decided to remain substantially an industrial party, in no concerted sense related to the agencies of political life. It has, on the whole, further decided to concern itself but little, as English labor in the last decade has increasingly concerned itself, with the welfare of unskilled labor. The result has been, as I think, the practical divorce of the American state from the industrial process. You have in America a capitalistic organization of society more hostile to organized labor than in Great Britain, with the consequence that organized labor is more bitter in its attitude to capital than in perhaps any other civilized country. Nor have you within the labor movement itself any such general unity of fundamental purpose as is possessed by the British labor movement. The result is that to take a large general program like that of the British Labor Party and attempt its application, either in outline or in detail, to the general problems of American reconstruction, would be certainly mistaken and possibly disastrous.

There is a further point. The labor movement in England

is a nationally homogenous movement; in America national, and sometimes racial, complications produce not merely the difficulty of language but also different standards of living as to wages and hours of labor. To attempt, therefore, to move that vast mass forward on a single front involves problems far more complex than we in England have to confront. Nor do I yet see in America any urgent effort to grapple with this problem.

Yet the fact remains that the English program has stimulated among American trade-unionists eager and even vehement discussion. There are, I think, three general reasons for this. The program of the British Labor Party is the first attempt in recent history to record, within a short space, considered proposals for the reform of the national life. The Labor Party, moreover, stands within measurable distance of dominating the House of Commons, not so much by numbers, as by the vital fact that it is today the sole English party possessed of definite ideas. Within the specific proposals may be found the dominating knowledge that they are, as a totality, the one constitutional path towards an adequate reconstruction.

Because reconstruction, I would urge, does not necessarily imply improvement. It seems to me that we are in grave danger of using that word as itself a universal panacea. We seem eager to leave every problem to the period of reconstruction; and though I hardly hold very optimistic views—I think it is right if such postponement implies a scientific examination of the proposals that are being put forward. In that event, it is probable that those who like Mr. Webb are dismissed as mere arm-chair critics, are the people most able to formulate solutions. That, at least, has been the general burden of European experience.

I would urge, therefore, that the main lesson for American labor in this program is an understanding of the causes of its adoption. The history of this program goes back not to 1914 but to 1910. It is born of the experience on the part of English labor of the uselessness of trusting either to the liberal party, with its timid paternalism or to the conservative party with its unregenerate unintelligence. Its main implication is a deliberate effort on the part of the working-man to enrich the conditions of his life. Herein, I would suggest, is a factor not

wholly understood by American labor. Improvement involves knowledge, and to know you must control. It is realized by the English trade unions that the only path to domination of the state by the working class—and that, after all, is the real object of our endeavor—lies through the capture of the sources of knowledge.

It is therefore the primary object of English labor to transform an educational system which is, in the last analysis, a class system, into one open in its every avenue not less to the humblest than to the richest. What that means, I believe, is hardly realized in the United States. I admit that the gates of education are here thrown open more widely than in any European country, and I admit that this is one of the great glories of America; but that is the beginning and not the end. American education seems less directed to the clarification by able minds of the political problems before us. No one from an English university can examine the effort of American education without the conviction that it is lacking in a sense of the state. It is the business of labor to create that sense; and it will fail in its effort until it enters with feverish energy into the field of politics.

And that leads me to a further observation. The divorce of American politics from the normal life of the average man is carried to a degree unknown in Europe. The very word politics has a connotation here unknown in England; and it is tragic to observe the considered and careful withdrawal from the noblest of all careers of the men who can best contribute to it. This divorce of politics in general from the national life of America, and in particular from its industry, seems to me the crux of the problems in front of you.

I know, of course, that history must be interpreted in economic terms, because politics is the hand-maid of economics; I have not taught for five years in a university without learning the shibboleths of the trade. But when the last word has been said, two things seem to stand out as impregnable truth. It is impossible for labor even to dream of victory, unless it attempts to capture the actual machinery of the state; and that implies not less political than industrial action. It must attempt in the second place to join with the brain-workers whose sympathies are with labor. By that alliance alone can the

philosophy of a new social structure be evolved. It is worth while in this place to remember that one of the greatest of political thinkers, Alexis de Tocqueville, visited America some eighty years ago and emphasized exactly this point. He saw that a new political science is necessary to a new civilization. It will be impossible for labor, without such assistance, to fit the institutions of a society so novel in scale as our own into the categories we have inherited.

There is a second remark of de Tocqueville that is worth a moment's reflection. He saw the possibility that the workers in the generations ahead would exchange their political power for material comfort. That is the gravest danger before us. Shorter hours and higher wages may bring that mood which avoids the most vital of our problems—the construction of a representative government in industry and its revivification in politics. Throughout the remarks on American labor reconstruction proposals there seemed to me a regrettable reliance upon governmental paternalism. Men seem anxious to have the benefit of the state without the trouble of conquering it. They do not seem to realize that a welfare imposed from above is rarely a social order that is capable of endurance.

I do not think that the years ahead will either in England or America be easy years. I agree with Mr. Lloyd George that the choice lies between reaction and revolution. I agree also that the trend of events lies in the road towards reaction. The means of its avoidance is not to trust in the good will that has been fortuitously evoked by the war. Our armor must be our own passionate determination to go forward. The root of our problem lies in the energy of our own souls. It is in that energy alone that we may dare to put our trust.

[197]

EFFECT OF FEDERAL CONTROL ON RAILWAY LABOR

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TO state at this time what has been the effect upon labor of federal control of the railroads will necessitate an explanation of what has been done in so short a time.

Having regard for the fact that approximately two millions of employees are affected and that much that has been done has been if not experimental at least in the nature of pioneering, I am convinced that a continuance of the sympathetic policy of the Director General of Railroads will in the not distant future eliminate that feeling of unrest, if not desperation, so pronounced at the termination of private control.

An effect of federal control of the railroads upon labor has been the demonstration to them that there are orderly means by which all differences of opinion between employees and the railroads may be equitably adjusted.

Almost immediately after the creation of the Division of Labor of the Railroad Administration this work was systematically undertaken, in fact it may be said that the principal purpose of the creation of this Division was to bring about a kindlier relation between official and employee.

These relations had become strained under private control, and for this unhappy situation neither operating officials nor employees were entirely to blame. In the early days of wage bargaining, the general manager of a railroad was privileged to grant increased wages and improved conditions of employment, when in his own judgment they were justified. In those days it was the operating officials of a railroad that dictated its policy affecting employees. In many instances these policies were liberal, to the extent that employees accepted a denial of requests, or accepted compromise, in the belief that the reasons offered by the operating officials of a railroad for not granting requests were sincere.

Then came the concentration of authority over expenses in-

cidental to labor costs in boards of directors, often common in personnel to groups of railroads. Some employees went so far as to say, and believe, that a comparatively few of the great banking institutions of the country had assumed the right to prohibit operating officials granting any wage increase, even when it was known by such officials that economic conditions justified a liberal policy. An opinion prevailed toward the last that operating officials had lost practically all authority over wage matters, that they had become but the agents to enforce the will of "absent landlords."

Some employees believed that even their highest operating officials were obligated to deny any and all requests "that meant money" to the railroads, and were forbidden to adjust liberally the personal "grievances" of employees. Some of them found that where formerly operating officials had dispensed discipline alloyed with kindness, and where leniency had once successfully been pleaded, an apparent change in policy had been established. Unadjusted grievances accumulated, the feeling of oppression became more and more pronounced, and with this change of mental attitude of the employee came a decrease in efficiency of service, a lowering of morale, almost a complete absence of esprit du corps, on more than one railroad.

And then came an experience that led employees to think that "Wall Street was so far away" that it never made a concession until its dividends and interest were jeopardized by a strike, or a threatened strike. Even had such a belief been based upon error, the belief was sincere, and thereby some railway employees reached the conclusion that their only hope for relief lay in a threatened strike. They were convinced that the strike alone was the only influence of employees recognized by those who dominated the railway labor situation.

The government took over the railroads with a majority of employees mentally depressed and educated by experience to believe in this theory, and it has taken time and patience to convince them that under federal control justice will prevail, without strike or threats of strikes.

As a part of the great harmonizing plan of the present Director General, three railway Boards of Adjustment have been created, to which nearly all employees working under

agreements with their respective railroads may appeal with certainty that a just decision will be reached. And for all employees not working under such wage agreements the Division of Labor of the Railroad Administration is a court of resort, where justice will be secured.

For its psychological effect, it was believed that for the strongly organized classes of employees, accustomed to adjusting matters in controversy in accordance with provisions of existing wage agreements, Railway Boards of Adjustment should be composed of an equal representation selected by these organizations and the regional directors of the Railroad Administration. By this method that constant fear of "prejudiced arbitrators," so pronounced among railway employees, has been entirely removed. Each and every member of these organizations of railway employees has the knowledge that he himself has a personal representative on the Railway Boards of Adjustment, and that no so-called "neutral" holds the balance of power. Of course, employees know that in the event of a "deadlock" on these equi-partisan boards, the Director General will take upon himself the duty of rendering a decision.

It was with the belief that deadlocks were inevitable that some railroad men of long experience, both officials and employees, doubted the practicability of this plan, but experience has not produced a single failure of these Railway Boards of Adjustment to reach decisions, equally balanced as they are.

Credit for this success is not alone due to those whose vision and optimism has been vindicated. It has been the determination of the members of these boards to be fair that has made deadlocks avoidable and decisions acceptable. But back of that, the chief executives of the employees' organizations are deserving of much of the credit for success, for they have said, in effect, to the respective representatives whom they have selected, "You are no longer an advocate, you are now a judge."

All members of these Boards of Adjustment are technical experts in matters of wage bargaining and adjustments of the many other controversies that constantly arise between the railroads and their employees. They approach all matters submitted for adjustment with a thorough knowledge of detail and past practices. None of them can be convinced by the

specious arguments that have so often led astray most estimable gentlemen who have served as neutral arbitrators.

There was not only fear that a bi-partisan board would destroy its usefulness by inability to avoid partisanship, but predictions were made that employees would refuse to accept unfavorable decisions. Long years of experience in such matters demonstrate that members of the older railway employees' unions seldom violate an agreement. When the executives of one of these organizations, or other representative officer or committee, enter into an agreement to abide by a decision, it is seldom or never repudiated. It was this knowledge of the loyalty to their organizations and methods of enforcing discipline by such organizations that removed fears that unfavorable decisions of Railway Boards of Adjustment would not be accepted in good faith by employees.

For that great number of employees who had never been permitted to participate in wage bargaining and grievance adjustment, through the machinery of labor union committees, the Division of Labor of the Railroad Administration acts directly as adjuster of controversies. An assistant director, with high reputation and years of experience in the work of mediation and labor adjustments, has been assigned the especial duty of investigating and adjusting matters of controversy not coming within the jurisdiction of Boards of Adjustment. He is assisted by men of like reputation and experience in field work, known as representatives of the Division of Labor.

This theory, however, if time will permit it to be carried to its logical conclusion, will place all railroad employees within the scope of work of Boards of Adjustment, upon which each class will have a representative.

Time will develop, in all probability, that one of the most pronounced effects upon railway labor of federal control will be the standardization of wages and working conditions of railway employees. A purpose long asserted by organizations of such employees had been accomplished only to a limited extent, both as to classes and to territory, under the pre-existing conditions.

It has not been so many years ago that on some of our most important railway systems a policy prevailed that produced a different wage, if not a different condition of employment, on

the several divisions of the same railroad. In some instances these differentials were established to meet the requests of the employees themselves, but in such cases a closer study will probably demonstrate that it was the inability of employees to secure a higher standard wage rate on all parts of a system that led them to press the claims of certain portions of the railroad where, because of peculiarly objectionable conditions, they had more convincing arguments to present for increased wages. Thus, by these methods of expediency, there were developed higher wage rates for the same classes of employees on the western divisions of the principal western railway systems. Thus, we find where increased wages could not be secured for an entire railroad, increases beyond a standard were secured where mountainous or desert conditions prevailed.

At one time it could be clearly shown that the cost of living was higher on western railroads than in the eastern region, and that other living conditions were not so desirable. Usually, however, it was the theory of expediency that caused railway employees to advocate these differentials.

This fact was brought out in recent years, where the so-called "district wage movements" were instituted by certain classes of employees, and district standards secured. With the unification of the railroads under federal control the argument was immediately advanced by many employees, "now that all railway employees are working for the government, all employees should be paid the same wages for the same work." But there had arisen another condition since the beginning of the great war that led employees to contribute to the defeat of their desire for standardization. Cost of living had advanced with such gigantic strides that many employees subordinated their altruism to their individual interests. Upon each man fell the burden of this depreciation in purchasing power of his individual earnings, and because of this burden he has, for the moment, subordinated his long-expressed desire for standardization of wages for his entire class to his desire to maintain his past individual standard of living. Notwithstanding this individualistic demand, the direct result of the great increased cost of living, certain classes of railway employees have remained true to their desire for standardization.

General Order No. 27, issued on May 25, 1918, was the
[202]

result of the recommendations of the first Wage Commission created by the Director General of Railroads early in the present year. Increased cost of living since December 1915 was the basis of computation adopted by that commission. To this was applied the humanitarian theory that the increased cost of living had fallen heaviest on the low-paid employee. But regardless of the amount of increase in wages produced by General Order No. 27, hundreds of thousands of employees earnestly protested against the application of the order, because it "re-established the differentials" in wages prevailing in December 1915, many of which differentials had been eliminated by wage negotiations during the years 1916 and 1917. This protest came largely from the approximately 350,000 employees engaged in the skilled shop trades. In carrying out their fixed purpose of standardizing wages and working conditions, they had during these two years secured such an agreement on the majority of the south-eastern railroads and were aggressively pressing that purpose on other railroads, when the railroads passed under federal control.

Their theory had been that the highest-paid men should be content with but minor benefits, when by so doing the lower-paid men were privileged to be advanced to a standard with all men in the same class of work.

The underlying theory of the wage advance of the first Wage Commission, while intensely humanitarian, completely undid all that had been done toward standardization by shopmen, clerks, telegraphers and others, during the two years intervening between December 1915 and January 1918. Perhaps it will be of interest to know how General Order No. 27 produced this result. The first Wage Commission having based its recommended increases on the rates existing in December 1915, recommended that any increases placed in effect subsequent to January 1, 1916 should be considered as a part of the wage increase granted through its recommendation. Thus, where in December 1915 two like employees had been paid \$3.00 and \$3.50 respectively per day, and the lower paid man had secured an increase of 50 cents per day in 1917, thus establishing a standard rate of \$3.50 per day, General Order No. 27 increased the wage of the one who had earned \$3.50 in December 1915 to \$4.77, while the employee who had earned

\$3.00 per day in December 1915, got \$4.23 per day, and of this increase of \$1.23 per day, 50 cents was deducted because of the wage increase of 50 cents per day in 1917. To those who did not understand what had been done a somewhat humorous situation was produced in which the man who had already received his increase was more dissatisfied than the man who had waited a year for it. Those who did understand the cause of complaint knew that both of the men used in this illustration would have been more pleased had each received the same increase and thereby have preserved the standardization created in 1917.

But a peculiar situation had developed for the employees in train and engine service. Their "district standardizations" had been established to a great extent before the close of 1915, and, therefore, the wage order (No. 27) based on the first commission's report, did not re-establish the former differentials.

The sympathetic attitude of the Director General toward the desire of railroad employees for standardization was amply evinced in that portion of his General Order No. 27, wherein he created a second Wage Commission, which he has designated as the Board of Railroad Wages and Working Conditions, and to which he delegated the following duties:

This Board shall at once establish an office at Washington, D. C., and meet for organization and elect a Chairman and Vice Chairman, one of whom shall preside at meetings of the Board.

It shall be the duty of the Board to hear and investigate matters presented by railroad employees or their representatives affecting

- (1) Inequalities as to wages and working conditions whether as to individual employees or classes of employees.
- (2) Conditions arising from competition with employees in other industries.
- (3) Rules and working conditions for the several classes of employees, either for the country as a whole or for different parts of the country.

The Board shall also hear and investigate other matters affecting wages and conditions of employment referred to it by the Director General.

This Board shall be solely an advisory body and shall submit its recommendations to the Director General for his determination.

In his supplements to the original General Order No. 27 this great work of standardization has been rapidly accomplished. Supplement No. 4 (July 25, 1918) established a minimum standardized wage, hours of employment and rates

of overtime for approximately 350,000 employees engaged in the shop trades. Supplement No. 7 (Sept. 1, 1918) and Supplement No. 8 (Sept. 1, 1918) accomplished a like purpose for perhaps a million employees engaged in clerical and other station work, maintenance of way, common labor, *etc.* Supplement No. 10 (Nov. 16, 1918) standardized minimum wages, hours of employment and rates of overtime for nearly 62,000 telegraphers, telephone operators (except switchboard operators), agent telegraphers, agent telephoners, towermen, levermen, *etc.*, and a few days later Supplement No. 11 accomplished the same purpose for all station agents not performing telegraphic service. In creating a "minimum standard," rates that were higher are preserved.

Of course in the pioneering work, apparent discriminations, if not injustice to individuals, developed, and to remedy these the Director General has directed the Board of Railroad Wages and Working Conditions to make further investigations in order that all may know that they will have a "square deal."

The one thing that has, to some extent, defeated the purpose of such an admirable policy has been the abnormal increase in wages of temporary war industries. Just why the railroads, under federal control, should not pay eighty cents per hour when this rate is paid by other governmental agencies is difficult to explain. But when it is realized, as it will be, that the Director General's plan has been to establish wage rates that will be permanent, beyond the war period, and after cost of living has decreased, railway employees will not complain. I am sure that had the Director General remained with us it would have been his purpose to have maintained the rates of wages and working conditions established by him. It has been to accomplish this that he has refused to compete in wage increases with other agencies and industries whose activities will be greatly affected by a return of peace.

And yet, it must be confessed, that many employees are distrustful of the government, as they have been taught to be distrustful of their former employers.

While such a comparison is exaggerated, and all comparisons are said to be odious, a celebrated author points out that even a wild animal, in time, responds to the treatment accorded it. Jack London in his wolf, "White Fang," portrays man—with

all the bad and good that is in him. An animal with but the instincts that nature gave him and his kind, developed into a ferocious beast under ignorant and cruel masters, and being half starved, over-worked and cruelly treated, developed viciousness to an extreme degree. And yet, as if by some magic power, another master made of him a docile, faithful creature. True, White Fang viewed with suspicion well-meant advances first made by his last master. He had been taught in his past life that all masters were cruel. It required but patience, tact and kindness to regenerate a degenerate. We have but to view a certain European situation to recognize that with man as with London's creature of the wild, like causes produce like effects. Anarchy is the natural child of tyranny, although, it is true, that no tyrant confesses his parentage.

Happily, no railroad employee has yet become a "White Fang" or a Bolshevik, but the leaven is there; unwittingly implanted by those whose selfish interests had blinded them to the destructive agency of their own creation.

Another administrative measure, equally as important to railway employees as those mentioned in the foregoing, has been the recognition of the eight-hour day by the Director General. In some instances he has not yet been able to grant higher rates of overtime after the eighth hour of work, but usually in such cases it can be shown that the other benefits of the wage order have been a great advance, and even in these cases the eight-hour day has been established with pro-rata overtime for work performed in the ninth and tenth hour, and time and one-half for any work performed after the tenth hour in any day's work. Where past practices have resulted in an eight-hour day and time and one-half for overtime for large numbers of employees in any class, this practice has been extended to all employees in that class.

As early as February 21, 1918, less than sixty days after the railroads passed under federal control, General Order No. 8 was issued, which contained the following provisions:

No discrimination will be made in the employment, retention, or conditions of employment of employees because of membership or non-membership in labor organizations.

This privilege thus granted, the principal of wage bargain-

ing having been recognized, and existing wage agreements confirmed by the Director General, all employees on roads under federal control were placed on an equality with employees on most of the roads where a more liberal policy has heretofore prevailed.

The fact that the Division of Labor was created with the Director of that Division on full equality with Directors of other Divisions indicates the general attitude of the Director General. It may be said that for the first time "labor" is recognized on an equality in solving the problems of railroad administration.

No doubt, there has been impatience among railroad employees because of delays in adjustments of matters affecting their well-being, but it should be remembered that all that has been accomplished has been the result of the first eleven months of federal control. Having regard for the fact that approximately 2,000,000 employees have been involved; that varying conditions existed on many railroads; that much of the work has been created, and that it must take time to solve such problems, I feel sure progress has been made with unusual rapidity in the settlement of most questions.

Under the existing congressional act, the railroads will pass back to private control on or before twenty-one months after the declaration of peace. Under private control, as under federal control, the labor problems are of great importance, and should have the serious consideration of those who are to re-assume control. If Congress decides to enact additional legislation affecting the railroads, I sincerely hope that the rights and aspirations of labor in the operation of the railroads will receive due consideration. What has been done under federal control may serve as an illustration of what may be done under any form of control. But so long as the roads are under federal control, it is evident that labor problems will be dealt with along different lines than was the practice when the roads were operated by private corporations.

One effect of federal control on railway labor has been the inspiration for better things—for a life really worth living. I have said this with full knowledge that federal control of labor produces effects in keeping with the peculiarities of temperament of those who govern. I speak of the present and

not of the future. What the future has for the well-being, contentment and consequent efficiency of railroad employees rests with those who are to dictate policies of the future.

I have before me official circular No. 84, issued by the Railway Employees Department of the American Federation of Labor. I presume that department represents approximately 600,000 railroad employees, and I am going to assume that those who are speaking for these 600,000 railroad employees have a right to make such a demand.

I find on the first page a copy of a resolution addressed to the President of the United States in which the most kind expressions of regard are made for the man who has been responsible for the policy adopted by the government in its attitude toward labor. They express regret that he is leaving the position which he has occupied since the railroads were taken under federal control, and even suggest methods by which possibly he can be induced to remain in the service. I suppose you know the reason assigned by him for going. These workmen go so far as to want to divide their salaries to create a fund which will make it possible to pay the Director-General of Railroads an adequate salary. Under the present law however he is not entitled, or cannot, I understand receive a dollar of compensation so long as he is Secretary of the Treasury.

Another resolution of similar nature was addressed to the President of the United States by what is known as the Schedule Committee of the 350,000 shop men. I am going to read this. It is dated November 27, 1918, and is addressed to Honorable Woodrow Wilson, President of the United States. It says:

We as delegates representing railroad shop men throughout the United States now in convention at Washington do not feel that the operation of the railroads under government control has had a fair trial during the short time they have been so operated, realizing that the act of Congress provided that the government should retain control of the railroads for a period of 21 months after the termination of the war; but we now see by reports through the public press that plans are under way to return the railroads to their former owners. We are of the opinion that the question is of such vast importance that it should not be hastily disposed of. As the representatives of 600,000 railroad shop men we are very much in favor of continued government control of the railroads.

English words do not mean the same thing in all English-speaking countries. When we speak of the "government," we often mean the machinery of government. If we speak of the United States central government we say "the Federal Government," or "State Government" in matters affecting the state. In other English-speaking countries the word "government" means "administration." In this country there is a vast difference between the "government" and the "administration." In England the government means the administration, and it does in Canada also. When we speak of governmental control it means federal control.

Notwithstanding my optimism I want to confess to you, after many years as a railroad employee, since I was a boy in fact, and many years as an active worker in trade unionism, I have never yet persuaded myself that "government ownership" was good for railroad employees. Do not forget the difference between the meanings of the word, for if the government, or rather an administration is reactionary, God help the working people. If the administration, or the government, as you may call it, is liberal, if it is sympathetic with labor, then I think all railroad employees would like to have government control.

But, what creates a government or an administration in this country? Public opinion. Now, what creates public opinion? Publicity. Those who control the channels of publicity control public opinion, and public opinion controls the government.

We hear much ado about a discovery that the brewers have loaned money with which to buy newspapers, and we have heard a great deal about what certain foreign ambassadors spent in this country to control public opinion, and we are shocked. That has been a common practice for years, only we have not heard so much about it.

It has been said that in the old days elections were won by giving a man here and there two dollars, but that has been changed by law, and votes are bought no longer for two dollars; but for perhaps two thousand dollars you can undertake a campaign of education, as it is called, through speakers and through the press, and control a thousand votes. Now, which is the cheaper method?

The danger in a democratic country is that the channels of

publicity are controlled by people who are able to pay the cost of publicity, and through their contribution to that expense they control public opinion, and public opinion elects governments. I fear that the day is not so distant when somebody's campaign fund will be huge enough to convince everybody that railroad employees ought to be sent to the penitentiary, rather than to be treated right. The greatest danger that confronts American democracy is the control of the channels of publicity by private interests.

[210]

COLLECTIVE BARGAINING—THE DEMOCRACY OF INDUSTRY

R. J. CALDWELL

President, R. J. Caldwell Co.; Vice-President Connecticut Mills Co.,
Taunton Cotton Mfg. Co., etc.

IN our American Revolution we accomplished in theory a democracy of government. In the 140 subsequent years we have endeavored, as we have gained experience, to acquire in fact a political democracy. We have not yet attained perfection. During that time the world has made the greatest material progress history has known—the railroads, steamboats, electric telephone, telegraph and lighting, trolley cars, the wireless, the automobile, the moving pictures, the phonograph, airplanes, steel ships and buildings, labor-saving machinery—and what not? We have lived in a machine age, the dazzling progress of which has engrossed our attention to the detriment of the human element.

The war has brought us back to a consciousness of the human factor. I venture to prophesy that we stand today on the threshold of a new era of worldwide recognition of the rights of mankind. It will embody results which no one can now have the vision to comprehend. The power of right is going to be more and more the dominating influence in the world hereafter. Our Declaration of Independence states that all men are created equal. But all men do not equally share in the opportunities which this great country affords.

The commercial agencies state that 95 per cent of all business ventures fail. This is evidence of two things—first, that our commercial structure is reared on a plan too difficult for most people to master. Second, our commercial scheme does not generally educate employees in a way to prepare them for the higher degrees of usefulness of which many are capable. The commercial management of the country is in too few hands because too few are capable of administering it. It is not against the interests of either the present administrators of commercial activities or of the country, to have a greater

number equipped to take a larger part in shaping our destiny. On the contrary, it is for the benefit of all. For the truth of this we have but to turn to the backward countries of China and Russia, where the per capita wealth and number of very wealthy is infinitesimal, compared with our own land, just because the masses of their people are ignorant, and too poorly equipped to take a more vigorous part in the life of the nation.

Scripture tells us that bricks cannot be made without straw, and a virile, progressive commercial nation cannot be, without an intelligent, industrious, consuming people. And a progressive nation is not soundly organized when the control of affairs is confined to too few hands. Whereas we pride ourselves on our democracy of government, we must admit that we live under a rather pronounced monarchy of industry. A monarchy rather more than a plutocracy, for the lot of the workingman is not essentially different with a small employer of limited means than with a larger operator of wealth. The workingman is just as much controlled in the one case as in the other, and has just as little voice in the management of his own affairs in either case. It is the fundamental principle in the field of labor that is wrong. In commerce we practice an oligarchy just as much as Russia has practised it heretofore politically. We must establish a democracy of industry as well as a democracy of government. We frequently hear in this country that the voice of the people in affairs of state is seldom wrong, and that public decisions are just decisions. This is because the public have been educated to exercise their rights intelligently through suffrage in an expression of their views. When laboring men have had the opportunity to train their judgment concerning their industrial welfare, as they have in respect to their political welfare, their judgment will be as good in the one case as in the other. But this necessitates that labor be given the opportunity so to express themselves relative to their commercial welfare. In short, industrially as well as politically, we must operate by the consent of the governed.

Industry is built up on the basis of protection to the employer as the custodian of property, and on the theory that labor is a commodity. The latter conception is wholly wrong—the former is only partially sound. Employers and property should of course be protected. Without such protection society

could not endure. This applies to men of small means as well as to those of large wealth. But the time has come when we must change our conception of labor. As a stockholder the employee should be a co-custodian of property, with the employer. When times are dull an employer does not neglect his machinery or his plant. Why should he neglect his employees? Why should it be possible for him to neglect his employees? Are industries for employers alone? Why should the employer determine the fate of the employees without ever consulting them? Why should the employees not have a share in deciding matters which concern them quite as much as they concern the employer? The body of wage earners is vastly greater than the body of industrial managers and proprietors. Why should we after 140 years of democratic government politically, maintain such an oligarchy industrially? Commerce engages and dismisses labor on the same principle by which it supplies itself with any commodity. If a rubber manufacturer requires less rubber than usual the rubber can be stored without suffering any injury. But one cannot store away men and women, and lay them on the shelf like merchandise, to be taken down again at some future time when needed. Working men and women are living souls with human necessities and rights. They are just as hungry in dull times as in times of activity. Most working people never earn enough to make provision in times of employment against periods of unemployment. It has been shown that even with the present high wages most working people are not so well off as they were in 1914, because of the higher cost of living.

But all these questions are too involved a science for the average working men to contend with successfully and we who might solve them do not. We concern ourselves not at all. When it suits our convenience we discharge our employees with no concern about their welfare. In times of general unemployment this visits upon the employee body consequences disastrous and dire. Does it take a sage or a seer to understand that the continuance of such a condition will lead to chronic discontent, with unhappy results to all? Are we not inviting here the conditions which we see prevailing in Russia? We are perfectly aware that Germany has in operation in the United States a far-reaching system of propaganda, calculated

to foster discontent in order to keep us so occupied at home that we will not be able to contend with them in the commercial fields of the world. Shall we permit Germany to gain this victory over us after she has lost the war? Are we so insensible to the principles of justice that we shall not right this thing of our own accord without having to be prompted by fear of retribution?

When times are dull an employer does not neglect his machinery or his plant. He guards and preserves them just as much as in times of plenty. Neither should it be possible for any industry to abandon and neglect its body of employees during a time when their services are not so pressingly needed. During times of plenty it should be the custom to set aside a fund to make provision for the welfare of those identified with the industry when employment is slack. This would not be so expensive in the long run as the present method, for it would avoid the costly process, which every manufacturer knows is one of the great costs of manufacturing, of breaking in new operatives when the demand for labor again increases. It would enable the manufacturer to reach a maximum production of perfect output in the minimum of time, by having available expert operatives; a gain which alone would materially offset the cost of the insurance fund previously provided, of sufficient amount to furnish a reduced compensation, but one sufficient for the men to maintain themselves, over the slack season. This would of itself greatly curtail poverty which is so prevalent at such times.

When an investment is made in an enterprise, preferred stock represents the cash amount paid in and common stock represents the future hopes of the investors. Why should this feature of profit-sharing be confined to those who make the moneyed investment and denied to those who are every bit as essential to the success, but who are never permitted according to the present distribution of earnings, to accumulate sufficient to make a contribution of funds. The money and management of the investors is no more essential than the labor of the employees. There is a difference in degree, but not in fact. In addition to the standard wage which an employee receives, why should he not get a common stock interest also, to represent the future hopes and prosperity of the company to which the char-

acter of his labor constitutes a material contribution, for the duration of the operative's connection with the company? His wages may be considered in the light of a dividend on his labor, which is the only thing he possesses to contribute, in the same sense that the moneyed investor receives a preferred dividend for the contribution he makes to the company in the form of money put in. After the preferred dividends are met, the proceeds should be shared fairly by all those who contribute to the progress of the company. In my judgment it is a mistake to suppose that this would be detrimental to any company. My experience is that the character of the work obtained from anyone is in direct proportion to the incentive inspired in him to do his best. The prosperity of the South began when slavery was abolished, and a new era of prosperity will be ushered in when every employee feels that he is being fairly treated, that his tenure of occupation is as secure as it can be reasonably made, and when an incentive to do his best actuates him in his work.

But we violently oppose the idea of giving employees any voice generally in determining their own working conditions. We fail to safeguard their health, then obstruct the enactment of child labor and workingmen's compensation acts. Since the Whitley report in England on joint industrial conferences and the governmental action based upon it, labor is enjoying a share in its own industrial government. By this plan every particular business has its own managing committee chosen from the workers and the employers. These then elect representatives to the general committee representing the whole industry, and that group in turn elects its representatives to Parliament. Legislation similar to this is what we need.

Mr. Rockefeller in his "Brotherhood of Men and Nations" describes how when industry was small, employees and employers came in close contact and a state of brotherhood existed between them. But now in the vast realm of modern commerce corporations are composed of stockholders widely scattered, so that personal contact and acquaintance between employer and employed is in a large measure quite impossible. Strangeness engenders suspicion, which too frequently is forming a chasm of misunderstanding between those involved.

"Instead of brotherhood there has developed distrust, bitter-

ness, the strike and the lockout." "The conclusion is drawn that labor and capital are enemies and their interests antagonistic; that each must arm itself to wrest from the other its share of the product of their common toil . . . This conclusion is false. Labor and capital are partners with interests in common. Neither can get on without the other. . . . Contact between the two sides must be re-established by the election by the workers of committees to represent them in dealing with the owners. . . . The principle of this representation, including adequate machinery for the early uncovering and adjustment of grievances, was adopted three years ago by the Colorado Fuel & Iron Company, one of the largest industrial corporations in Colorado. It has since then been put in operation by the Standard Oil Company of New Jersey in all its plants in various States. Likewise by the Consolidated Coal Company, one of the leading coal-mining companies, and the National War Labor Board and the Fuel Administrator have been urging the adoption of this principle in industry." If we make men free industrially as well as politically, they will be free spiritually. There will then be less incentive for domestic strife. The principles of co-operation and co-partnership between "capital and labor" must supplant the theory of "capital versus labor" if we are to meet the issue successfully. Harmony between labor and capital can be promoted and justice advanced only by common fairness to all.

An employee leaving employment either voluntarily or involuntarily should receive just compensation for the stock held in his or her name. This will act as a deterrent to promiscuous dismissal. It will stabilize employment. It will make men more independent of the vicissitudes incident to every business. They will have some protection against the whims of foremen and superintendents, and especially new foremen and superintendents, with whom friction is so liable to occur.

It is time to realize that a contented employee, free from worry and the practice of injustice, is a better employee. He is a better *producing* employee, therefore a more profitable employee, and a more ambitious employee, all of which is good for all concerned. The men in high position in commerce, in the counting house, in statesmanship—in every field

of endeavor, are the men of ambition. Their ambition is the secret of their success by which they have enhanced their value to the community. This truth is recognized everywhere and ambitious men are encouraged by their companies as future assets. Only in the ranks of labor does this not hold good. If ambition is a desirable trait to cultivate everywhere else, why is it not equally desirable to cultivate among workers?

The correction of these conditions we have described lies in giving the employee a voice in determining his own affairs, his interests, his future, his fate. This is the simplest form of democracy. Not to do so is as tyrannical as the operation of any monarchy. We do not like to think, and some of us do not realize, that tyranny exists in this thing, but it does. It is better to have a democracy in industry than a revolution in industry.

The way to give industrial representation is by creating committees of employees in every employee body. These committees should include no foreman or superintendent, though the foremen might have committees of their own. Such committees should be accorded complete freedom in meeting and discussing their interests, in non-working hours, and in presenting to the employer any communication which they might wish to transmit. A copy of any communication submitted to the employer should be forwarded to the Secretary of Labor at Washington. The employer should be required to make answer within one week, he likewise furnishing to the Secretary of Labor a copy of his reply. This would automatically bring the entire discussion out into the light, and the mere inauguration of such a plan would be both preventive and curative of many industrial ills. If any differences of opinion could not be readily adjusted by the parties directly concerned, the Board of Conciliation of the Department of Labor could then lend aid.

An innovation which would constitute but common justice with most beneficial results to the entire community would be the establishment of a clearing house for labor as proposed by the present Secretary of Labor. The man to the job—the job to the man. Consider how commercial machinery would be crippled were it not for the bank clearing houses. The commerce of the country would never have reached its present stride did it not benefit by all the facilities created for the

promotion of commerce. It is equally obvious that efficiency of labor can be as vastly increased by clearing houses for labor as the banking of the country has been made efficient by clearing houses for banks.

The world looks up to us now as it never did before. What we do here will be adopted elsewhere. Social relations are undergoing a change everywhere. Whole peoples are emerging from the state of oppression under which they have labored for centuries. Shall we not likewise emerge from the state of oppression which prevails in our industry? China was once the foremost of nations, but she allowed others to surpass her. Shall we relapse into pre-war conditions or shall we prove our right of leadership in the world field of democracy by applying it even-handed to all — politically and industrially alike? Christ died to make men holy. Let us strive to make men—altogether—free.

[218]

HUMANIZING THE MANAGEMENT OF INDUSTRY

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I THINK we are all agreed that the relation of capital to labor, although it may permit of economic interpretation, is, to a large extent, a human question, and involves primarily human relations. There is no more important and interesting problem to be solved in the coming years than the daily relation of the management to its employees. As an absentee landlord I shall attempt to point out one obstacle that is to be overcome in humanizing and stabilizing this relation.

It is trite to remark that the day of the small business run by an all-around business man has passed, as far as a large number of fields are concerned, but some of the important consequences of so-called "big business" have escaped general attention. One important effect of large-scale production is that plants in industry where such production exists are no longer managed and operated by laymen of broad business training and experience but instead they are operated by technically equipped managers—men that have a specialized professional training.

It is with these men that the handling of the labor problem in such industries finally rests. They are in the "key positions." As a consequence, there has been a good deal of talk of absentee landlordism, a good deal of criticism of the fact that the real owners of the property—the stockholders—whether they be a few holders of large blocks of stocks or a large number of small holders, are apt to be out of touch with the details of plant management and the charge has been raised that the directors are solely interested in finance. Analogies have been drawn to the conditions that prevailed in subject provinces of ancient empires—the word "feudal" has been used to describe conditions. I am rather inclined to think, however, that these analogies have carried us somewhat astray and that our attention has been diverted from

the root of the problem by this tendency to treat these questions in too melodramatic a fashion. To use a rather hackneyed phrase of Grover Cleveland's "It is a condition which confronts us, not a theory." The condition is, in the opinion of many of us, rather a natural outgrowth, a corollary of modern industrial specialization. The directors are in charge of finance because this is their specialty, and they do not interfere in labor problems any more than they interfere in technical problems. It is not because of any lack of human sympathy or understanding on their part but rather because adherence to such specialization seems best for effective administration. Even if they have the inclination, training, sympathy and time to study the labor problems, the owners and directors will in most cases feel it is wise not to interfere with the work of the manager in charge, because the local labor problems are so interwoven with the daily routine of other operating problems that they have not the intimate knowledge of the nuances of situations that justifies them in interfering. They have to rely on their managers for the facts of any situation, and so while they can exercise much influence, and a good influence, in guiding general policies, it rests with the managers to apply these policies. There are many exceptions where an active conscience will impel, and conditions will permit, a director or owner to interfere, but it is dangerous to rely on exceptions. And so after all the manager is the pivotal individual upon whom the modernization of the day-to-day relations between capital and labor depends. No matter how sympathetic to a liberal labor policy the amateur on top may be, it is impossible for him to carry it out unless the technically equipped manager himself has the same point of view and understanding of the problem. A solution has been sought in the introduction of the new profession of employment manager, but though this is an admirable development—a very big step in the right direction—it is not in itself a solution of the problem. Unless the general manager in charge of the entire plant has the background to make him sympathetic to modernization in the methods of handling labor at his plant—unless he is sufficiently mature in his outlook to realize that the handling of labor is a specialty and will thus be sympathetic to the introduction of a particular depart-

ment for handling these problems—he will and can block any such attempt at a modern scientific approach. For the management of the plant is in his hands—he is the “boss” and the methods of the operation of the plant must ultimately be under his direction and limited by his understanding. Even after a distinct department under an employment manager has been set up, the larger policies will depend on his final decision.

This points to the need of introducing into the curriculum of every technical institution for those students who by any possibility may in later life have charge of men, thorough courses in sociology and in the modern technique and methods of handling labor. Such courses should be “required” and should be thoroughly understood to be an integral part of the training of the students. Technical schools have too often lacked the inclusion of such courses—even as “optional” courses. Many technical men in the rush to earn a living do not get any broad humanizing courses at academic schools. As a consequence they have not even a meagre sociological background, and nothing is done in their technical training to make up for this lack, with the result that though they may be turned out thoroughly competent as far as their technical qualifications are concerned, they are left naive in their approach to the human problems involved in their future profession. When put in charge of plants such men resist the introduction of modern methods in handling labor and even though they finally consent to an employment manager being put in charge, they do not give him the proper support or encouragement and are inclined to be obstructive. In any event, even if they are willing, it is difficult for them to co-operate intelligently. The following excerpts from the report of the President’s mediation commission are significant. I quote:

The resident management . . . is wholly traditional in its effect, however sincere in its purpose. The managers fail to understand and reach the *mind* and *heart* of labor because they have not the aptitude or the training or the time for wise dealing with the problems of industrial relationship. The managers are technical men, . . . engineers of knowledge and skill . . . it has hardly begun to be realized that labor questions call for the same systematic attention and understanding and skill as do engineering problems.

Many of us hope that it will not be long before those re-

sponsible for planning the curricula of technical schools will take cognizance of the situation. We believe it deserves their most serious attention. May I also suggest that it is of the greatest importance that where such courses in industrial training are introduced, they be not treated by either faculty or students as fads but as very practical and essential parts of the students' preparation. Those of us who are employers can give positive assurance that such an addition to the equipment of graduates will have definite value to them in dollars and cents. But what is of more importance is that the attention of the faculty of our technical schools to this matter would mean much in the modernization of the handling of our labor problem.

Above all let it be kept in mind that this subject is not a technical problem but a human one. Not only the mind but also the heart of the prospective manager should be trained and he should be imbued with a thoroughly human and liberal attitude. Only thus will he be able to understand and reach the heart as well as the mind of labor.

[222]

222

III

ADJUSTMENTS OF WAGES AND CONDITIONS OF EMPLOYMENT



ADJUSTMENTS OF WAGES AND CONDITIONS OF EMPLOYMENT

V. EVERIT MACY

Chairman, Shipbuilding Labor Adjustment Board

I ASSUME that the purpose of this conference is the same as that of many conferences now being held, namely, to see if any of our experiences during the war will be of service to us in peace times, and whether any of the administrative machinery that was established to carry on the war would be of benefit to perpetuate after the war is over.

Relating to the situation as it existed in regard to labor adjustments just prior to our going into the war, as you know, the Council of National Defense was established a few months before our entry into the war, and shortly after that the advisory commission of the Council of National Defense. On this advisory commission Mr. Gompers was appointed as the representative of labor to deal with labor matters. In his usual farsighted way he called a meeting at the office of the American Federation of Labor to form a labor committee to act as advisors and assistants to him in the situation. He had some one hundred and fifty people at that meeting, large employers of labor, organizations of employers frequently formed to fight trade unions, and in addition some fifty or sixty or seventy leading labor leaders of the country.

As a result of that meeting an executive committee was appointed on which were representatives of employers organizations and labor organizations, and a certain number of men representing the public and having no direct connections. One of the first acts of that special committee was the drafting of certain general principles. These principles were submitted to the Council of National Defense, and were issued by them as guiding principles in relation to labor and labor conditions to govern the country during the time of the war.

The two important principles then announced were, first, that the conditions of labor, conditions of employment and standards of living should not be reduced unless the nation

was forced to such an extreme measure; that so far as possible without interfering with the conduct of the war we should maintain all of our previous standards of living. Second, that the conditions that labor had been able to establish in regard to closed shops and open shops, were to remain during the war. In other words, that neither labor nor capital was to take advantage of the situation created by the war to change the conditions as they then existed.

These two principles have been of the greatest assistance to the various boards established to adjust wage matters and industrial relations.

At the beginning many people did not realize the importance of these labor questions and the necessity for providing for their proper adjustment. As I was saying the other day at a meeting—and I will repeat it here simply to show the situation—we had not been in the war more than two months before a great many small difficulties arose, and the Department of Labor was pushed to the utmost to find a sufficient number of conciliators. The appropriation for conciliators therefore ran out before the end of the fiscal year on July 1. Certain members of Mr. Gompers' labor committee appeared before the committee in Congress having charge of deficiency appropriations, and asked for a supplementary appropriation to enable the Labor Department to continue the same number of conciliators that they then had as otherwise some of the conciliators would have to be dismissed. I happened to be a member of that committee, and we saw the chairman of the committee in the Senate. We told him of the necessity of the additional appropriation, and tried to lay emphasis on the importance of providing for proper adjustments and conciliation of these questions. He gave us about two minutes and ended up by saying that if he listened to all the fool propositions brought before the committee the bill would amount to several billions rather than several hundred millions as it was, and that the matter of labor disputes and settlements was purely a private matter in which the government had no interest whatever at that time. We tried to show him that if strikes resulted in interruption of production it was a very serious war question and one in which the government was vitally interested, but we were unable to convince him. I think that was somewhat

the attitude of many people at that time. They were however forced to change this attitude within a month or so as the situation became so threatening that various labor adjustment boards began to be formed. Unfortunately they were formed only as the necessity for some particular board arose to treat some special crisis in industry. They were therefore formed in a hurry and under pressure. They were formed without any relation to each other, and they were formed on very different principles. The first boards were formed through negotiations between the government and the American Federation of Labor, Mr. Gompers taking an important part in the development of these boards. But, as I say, the earlier boards were formed under pressure and without any distinct program for their guidance. The result was that it was very difficult through the first year for the boards to co-ordinate their work and to prevent more or less of a conflict in their decisions, because they were compelled, owing to the character of their formation, to decide the questions at issue in accordance with the principles upon which they were established, and where these principles varied you of necessity got more or less varying conditions. If the war had continued a short time longer many of these difficulties would have been overcome, and we would have had a more constant and consistent policy. The various boards during September had conferred together and had agreed upon certain general principles which had received the approval of the Secretary of Labor. These principles would have developed a national labor policy. But, by the time this was arrived at the war was over; consequently there never actually developed a definite administration policy in regard to these matters. Each board was left to its own way of establishing its own policy. It was an important factor in which I think we should take great pride, that these boards were all the result of voluntary negotiations and voluntary agreements. Unlike some of the European countries we did not require any legislative action, any compulsion to bring the employers or the labor organizations into these agreements. They willingly came in and did all they could to make these agreements effective, with the result that for the year and a half we were in the war there were practically no strikes of any importance, of any national magni-

tude. Of course where so many people were involved here and their minor disturbances would arise; but they lasted for only a short time, and I think the record of this country for the year and a half was fully as good in maintaining peace and uninterrupted production as that of any foreign country during the first year and a half that they were in the war. This was all accomplished by voluntary action, without any legislative enactment. I think that is one of the most encouraging features, and one that leads us to the hope that, having tried out some of these voluntary methods during the war, whatever is of value in them may be maintained and perpetuated in peace times, and that they will possibly result in the same uninterrupted production in industry as they have brought about during the war.

One of the boards that has dealt entirely with government interest is the Railroad Wage Adjustment Board. Since the time that board was established the government has been operating the railroads, so that is the one board that has been dealing entirely with government industry. The Shipbuilding Labor Adjustment Board dealt with an industry that was in private hands, and still under private management, but doing solely government work, while some of the other boards had both government work and private employers to deal with, which made their situation more difficult.

[228]

ADJUSTMENTS OF WAGES AND CONDITIONS OF EMPLOYMENT UNDER GOVERNMENTAL CONTROL OF INDUSTRY

G. H. SINES

Chairman, Board of Railroad Wages and Working Conditions,
U. S. Railroad Administration

AS Chairman of the Board of Railroad Wages and Working Conditions I am glad of the opportunity to point out some of the reasons that necessitate a continuation of some plan of solving labor questions on the railroads without the possibility, perhaps, of industrial conflict coming in the future, because of the very many changes that have been brought about on the railroads on account of the emergency conditions, and because of the difficulties that will arise in handling those questions in the future.

The Board of Railroad Wages and Working Conditions is composed of six members. Three of the members are railroad officials. Three of them are officers of national labor organizations. To each member of the board the perplexing problems that have confronted us, although we have had years of experience in dealing with labor questions, have been of a very interesting and engrossing nature.

I wish to dwell upon some of the difficulties that confronted the railroad administration when it took over the railroads. I presume that it would be thought by many people who were uninitiated in the maze of wage-making, that an easy way to have met the situation would have been to have increased wages by the percentage plan or by a flat rate of increase, or by establishing a necessary minimum. So far as the railroads are concerned that is just where our difficulties would begin. They would begin because of the fact that through the years that organized labor has been negotiating agreements on the railroads there have been built up some thousands of recognized differentials between the different classes of labor.

The problem that would arise would be how to apply increases to these rates of wages and not at the same time do

violence to the whole fabric of proper wage differentials and to trade-union ethics, thereby making the whole structure so objectionable to the two and a half millions or so of employees, that it would be repudiated by them.

This was the problem that was confronting the railroads with an irresistible momentum just one year ago. It was a heritage incurred by the administration when the government took over the railroads. For several months prior thereto demands for money increases in wages were successfully being filed with the managements—a large number of readjustments had been made during the preceding year and a half, aggregating, in the sum total, approximately \$300,000,000 per year increase in the operating cost; but these increases affected but a portion of the employees and in but a few instances equaled the increased living cost.

Professor Seligman has well pointed out that "there are two kinds of wages—money wages and real wages." Since as compared with pre-war values, the index number of prices shows that living costs have nearly doubled, again quoting from Professor Seligman, "If a man's money wage was doubled, his real wage actually only kept at what it was before the dislocation began. If he had gotten a money wage increase of 50 per cent, he was only three-quarters as well off as he had been." In other words, although his money wage had been increased 50 per cent, his real wage had been reduced 25 per cent.

And thus the railroad employees who had received a money increase found themselves and their dependents with a real wage of lower purchasing power. Added to these were the others of the more than 2,000,000 of employees who had received no money increase and hence found their real wage reduced by more than 50 per cent.

Caused primarily by two reasons—insufficient wages in the pre-war period and the rapidly mounting living costs, the railroads found themselves, toward the end of last year, faced by wage demands aggregating approximately \$1,000,000,000 per year and in addition to these pending demands, as I have already stated, increases had been conceded during the years of 1916 and 1917 amounting to about \$300,000,000 per year.

These pending demands could not be met by the privately

operated railroads and therefore the nation's transportation business was at the breaking point when the government took over the railroads.

Here was a situation that would permit of no delay in its solution if the transportation business was to be kept moving—if the war was to be won; and no one can question the patriotism of the railroad employees in demanding that the wage question be solved. A splendid testimonial to the attitude of these workers is offered in the report of the Lane Commission wherein it is stated:

That there has been such steadfast loyalty to the railroads, and so slight a disposition to use the lever of their necessity and their opportunity to compel by ruthless action an increase of wages, is not without significance and should not be passed without public recognition.

One of the first acts of Director General McAdoo was to appoint a commission consisting of the Honorable Franklin K. Lane, Charles C. McChord, William R. Wilcox, and Judge J. Harry Covington with instructions to investigate the matter of railroad wages and working conditions and to report thereon to the Director General who would therefrom determine what increases should be made.

As a result of the Lane report, the Director General added percentage increases based on wages in effect in December 1915, which increased the operating costs approximately \$300,000,000 per year.

To correct an erroneous impression undoubtedly gained through promiscuous advertising by the privately owned railroads in the pre-war period when demands for certain employees were pending, that "The railroad men are the aristocrats of the labor world," it might not be amiss to quote the following from the Lane report:

It has been a somewhat popular impression that railroad employees were among the most highly paid workers. But figures gathered from the railroads disposed of this belief. Fifty-one per cent of all employees during December 1917 received \$75 per month or less. And eighty per cent received \$100 per month or less.

When one stops to consider that even in the pre-war period, it was estimated, as a result of a large number of surveys, that it would require nearly \$1,200 per year merely to support an

average family in keeping with American standards of living, and when one couples with this the further fact that fifty-one per cent of all employees were receiving not to exceed \$900 per year, or \$300 less than enough to support an average family, can any one honestly question the justice of the demands of the railroad employees that they not only have their wages, "money wages" increased, but that their "real wages" be increased?

Since the pre-war wages upon which the Lane commission had based its increases were inadequate and inequitable, it was apparent to the Director General that additional increases were immediately necessary and to the end that this might be fairly worked out, and in keeping with recommendations contained in the Lane report, the Director General appointed the Board of Railroad Wages and Working Conditions. Since this board began its work on June first, the Director General has issued five general supplemental wage orders based on its recommendations, and many others of local nature applying to about 1,700,000 employees, adding to the pay rolls approximately \$250,000,000 per year in addition to the Lane increases. With this \$250,000,000 added, plus the \$300,000,000 of the Lane award, plus the \$300,000,000 added in 1916 and 1917, we see that, as compared with the pre-war wages, or the wages in effect in December 1915, there have already been added to the operating costs of the railroads approximately \$850,000,000 per year. There are remaining over 650,000 employees who will be included in orders which will be issued in the near future and for whom possibly further increases will be added. Thus it will be seen that in the sum total approximately several hundred millions of dollars will be added to the operation costs as compared with the pre-war period and even after this immense amount of money has been added in wages, the wages of the railroad employees will be only fair and generally speaking, materially less than those paid to workers in other industries where far less skill is required. The average increase in wages will be less than fifty per cent while the increase in living costs is over sixty-five per cent. In other words, the increased wages have nowhere kept pace with the increased living costs, and still there have been added to the operating cost of the railroads almost one billion dollars a year.

The Railroad Administration's purpose is to fix wages and conditions of labor that are fair to the public and fair to the employees—the Administration feels that the just interests of both should be protected. The Administration has endeavored to find a basis of wages for the railroad workers that can be maintained in the coming reconstruction period, with equal pay for the same class of work, irrespective of sex or color. The employees say that, having been loyal and patriotic, having not insisted that their wages should equal those of men no more skilled than they, their wages should not be reduced.

We have here a serious problem and one that must be solved correctly, otherwise the situation that will arise is one that is not pleasant to contemplate. Is it a problem that can best be solved under private operation or under governmental operation? The public must decide.

But as the situation now stands, in the future as during the past year, the Railroad Administration and the employees will be found in "double harness" doing their best for America. And even though private operation of railroads should be resumed, the employees will be no less loyal to their nation during the trying years of the reconstruction period. They will give a square deal to the public; they will demand a square deal for themselves.

With this problem confronting the nation, and with the possibility during the reconstruction period of an attempt to reduce the pay of the railroad employees, these two and a quarter millions or so of men and women whose wages, even during the war period have not kept pace with the increased cost of living—even though the pay be reduced on a grade with the decreasing cost of living, or if an attempt be made to decrease the wages faster than that, I think you can readily appreciate the position in which this nation will find itself, in so far as the position of the workers on the railroads is concerned. They feel and they feel justly, that having been patient, having waited to have their questions solved, having made no use of their economic strength, their wages should not be reduced. Nobody has been worried over the situation so far as the employees of the railroads are concerned. There have been no labor troubles during the past year or year and a half. In fact, I might go further and say that so far as some of the

classes of labor are concerned on the railroads, you can count on the fingers of your two hands all of the strikes that have occurred with a large portion of the employees on all of the railroads of America in the last fifteen or twenty years. But if, after having continued to work and having seen that living costs increase as they have been increasing (a large portion of these employees have received but twelve or thirteen per cent, and some of them but sixteen or seventeen per cent increase as compared with pre-war wages), they should be told that there will be a reconstruction period in which an attempt will be made to decrease wages, I think you can readily appreciate the necessity for providing some kind of machinery that will intelligently, wisely and consistently handle the problems of labor on the railroads.

[234]

STANDARD OF LIVING AS A BASIS FOR WAGE ADJUSTMENTS

WILLIAM F. OGBURN

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THE standard of living as a factor in determining wages has been raised to a plane of importance, seldom if ever, equaled. This has been due in large part to the great rise in the cost of living. The items of the family budget rose so precipitously in price after the summer of 1915, that, in cases where wages did not rise, the fall in the standard of living was markedly perceptible over very brief periods of time. As the standard of living of many American workers prior to the war was so low, any lowering of the standard budget brought acute suffering. So the struggle for higher wages was generally based on the plea of the rising cost of living.

Another reason why the standards of living became an important factor in determining wages was the high degree of social control exerted over labor, necessitated by the conditions of warfare. Industrial man power was so essential during the war that laissez-faire conditions involving the freer operation of supply and demand and of the strike and lockout could not be permitted, and in their place were substituted a strong measure of social control, vested in part in wage setting bodies such as the National War Labor Board, the Shipbuilding Labor Adjustment Board and the Railroad Wage Commission. With these bodies, it can perhaps be truly said, the standard of living was a guiding principle. These bodies have had extensive cost-of-living studies conducted in various parts of the country and have time and again based increases in wages specifically on the increased cost of living. Thus on one occasion the Railroad Wage Commission based the increase in wages on a measurement of the increase in living costs, and on at least three occasions the Shipbuilding Labor Adjustment Board has done so. In practically all of the cases involving wages that have come before the National War Labor Board, the increased cost of living has been considered,

and in many cases the increase in wages has been exactly the same as the increase in the cost of living.

A great number of private employers also have increased wages because of the increased cost of living. Illustrations are the Westinghouse Lamp Company, the Doehler Die Casting Company and the Tide Water Oil Company. A number of other cases have recently been cited in an article by Professor Irving Fisher. Some employers have increased wages specifically according to the percentage of increase in cost of living, determined after special surveys. Illustrations are the flour mills of the Pacific Northwest and the Bankers' Trust Company of New York. A large national organization of employers associations, the National Industrial Conference Board, has prepared for the use of its members an extensive report into the increased cost of living. A few companies have adopted the interesting experiment of regular periodic increases in wages, based on increases in general prices. Some of these are the Index Visible, (Inc.) of New Haven, the Oneida Community, and the Kelly-How Thompson Company of Cleveland.

The facts of the increased cost of living, upon which these wage increases have been based, were determined from extensive surveys made by various agencies, such as U. S. Bureau of Labor Statistics, the National War Labor Board, the National Industrial Conference Board, the Shipbuilding Labor Adjustment Board, the Railroad Wage Commission, the University of Washington, and others. Of these studies by far the most important are those by the Bureau of Labor Statistics. From all of these studies we know fairly certainly that the cost of living based upon all the items of the family budget, including food, rent, fuel and light, clothing and sundries, had increased for the country as a whole about 55 per cent from the pre-war period, as measured by the year 1914, to June 1918. We also know that the increase has been fairly uniform over the country as a whole, the greatest variation being in rent. Up to August 1918, the increase had been about 65 per cent, this figure being the average increase over 1914, in 15 shipbuilding centers, as measured by the U. S. Bureau of Labor Statistics. At the present time a fair estimate of the increase in the cost of living would probably be 70 per cent. This figure I think can be interpreted as mean-

ing that unless wages have increased over this period 70 per cent, there has been a fall in the standard of living.

We do not have available so far as I know the figures to show whether wages have increased 70 per cent over 1914 or not. The general economic theory of wages and prices is that wages do not increase as rapidly as prices, and that during the period of rising prices real wages are lowered. The conditions upon which such a general economic theory is based have been modified during the present war by several forces all tending to raise wages more than usually occurs during a period of rising prices. These forces have been the shortage of men, due to the cutting-off of immigration, the drafting of men into the military forces, the demand of stimulated industry, the degree of social control of wages by the Government, and the extension of credit.

What, of course, is true, is that in some industries wages have risen more than the cost of living has risen and in others they have not, while in some occupations wages have just about kept pace with prices. Thus in the steel and iron industries wages have increased more than the cost of living. The National War Labor Board has in a number of its decisions increased wages more than the cost of living has increased. The awards of the National War Labor Board in the street-car cases and a number of the decisions of the Shipbuilding Labor Adjustment Commission affecting trades engaged in shipbuilding have placed wage rates at very nearly the increase in the cost of living. In the building trades and in the printing trades wages have not increased as much as the cost of living.

The only figures I have secured on increases in real wages are the following: I have been able to get the increases in union wage rates since 1914 up to May 15, 1918 in 19 trades in about 12 cities. Expressing these rates in terms of their purchasing power and calling the result real wage rates, then the bricklayers' real wage rates have fallen 21 per cent, carpenters' real wage rates have fallen 18 per cent, cement finishers' have fallen 20 per cent, granite cutters' have fallen 18 per cent, hod carriers' have fallen 9 per cent, painters' have fallen 14 per cent, plasterers' have fallen 25 per cent, plasterer labors' have fallen 20 per cent. The blacksmiths' wage rates

have risen 5 per cent, the boilermakers' have fallen 5 per cent, the machinists' have risen 10 per cent, the iron moulders' 5 per cent. The real wage rates of plumbers and gas fitters have fallen 20 per cent, of stone cutters 18 per cent, of structural iron workers 14 per cent. Compositors' real wage rates have fallen 25 per cent, electrotypers' and stereotypers' have fallen 27 per cent. These changes are based on union wage rates and not on earnings.

I have been able to get figures on the increase in earnings in six important industries. The earnings have been found by dividing the total payroll by the number of wage earners on the payroll for the week, or the two weeks prior to December 31, 1914 and October 1, 1918. Expressing these earnings in terms of their purchasing power and calling the result real wages, then real wages in the boot and shoe industry have increased 23.5 per cent, in the cotton-finishing industry they have increased 6 per cent, in cotton manufacturing they have increased 13 per cent, in the manufacture of hosiery and underwear the increase has been 11 per cent, in the silk industry the increase has been 5 per cent, in woolen manufacturing they have increased 9 per cent, and in the iron and steel industry real wages have increased 45 per cent.

For common labor, I found that in the government employment offices of 130 cities the last common labor placed prior to August 1, 1918 averaged 36.6 cents per hour. If in December 1914 such common labor was placed at less than 23 cents an hour, then real wages for common labor have risen, and if common labor was placed at more than 23 cents an hour, then real wages for common labor have fallen.

The foregoing figures do not of course show whether real wages as a whole have risen or fallen, but they furnish some indication of what has happened to a large percentage of American workers.

Observations of these variations in wages by industries and occupations are convincing evidence that the standard of living has not been the exclusive factor in setting wages. Supply and demand have at times raised wages more than the increases in prices, and in other occasions less. There are also numerous instances to show that strong unions have been able to raise wages more than less strongly organized groups have

done. And also in many industries where there is very detailed classification of individual workers according to skill, productivity has been specifically responsible for increases in wages.

Having made this brief analysis of the problem and survey of the facts, the important question of what will be done during the period of reconstruction and demobilization may be considered. The operation of three forces will probably determine the results. First, if general prices fall, wages, after a short lag, will tend to fall, industry will be depressed and unemployment will probably result. If general prices rise the opposite results will occur. The course of general prices will probably be markedly affected by the quantity of money and the volume of credit. Second, if general industrial activity is stimulated, wages will be kept up and perhaps rise. General industrial activity will be determined by the demand for the products of industry by a world in need. Also the course of general prices as affected by the supply of money and credit will have its effect on industrial activity. Third, if the demobilized workers in war industries and the demobilized army are not absorbed in a stimulated industry, unemployment resulting in a tendency to reduce wages will occur. What the operation of these inter-related forces will result in, it is not the purpose here to venture a prediction.

It would certainly seem desirable, however, that these forces ought not to operate without the guidance of public policy toward human values and social ends. These aims may be condensed into the statement that the standard of living of American workmen ought not to be lowered. The fact that during the history of our republic the standard of living has been markedly raised should serve as an ideal for our guidance in the future. And if during reconstruction it is desirable that the standard of living of American workmen should not become lower than in the past, it should be remembered that for the decade prior to the war according to studies that have been made, there was a lowering of real wages, that is, of the standard of living. Of course if prices fall, money wages can fall without lowering the standard of living, and no doubt in some cases where large earnings of labor have been due to excessive overtime and speeding-up, a fall in

earnings might be socially justifiable. But in many instances neither wage rates nor earnings have risen as much as the cost of living.

In stating these democratic desires, there inevitably arises the question: can they be realized? Granting a public policy embodying these aims, will such a public policy be sufficiently strong to counteract such powerful economic forces as supply and demand, falling prices, and unemployment? Public policy is still weak as compared with such forces. But one thing is certain: simply stating that the standard of living ought not to fall, even though it be loudly proclaimed from one end of the country to another, will not suffice. It is absolutely essential that a plan to attain this end should be worked out, organization perfected and machinery set up. And, unfortunately, such has not been done. This is really the first important and necessary step to take. It is not the purpose of this paper to sketch such a plan and such an organization. The task is very large. But two features of such a policy may be mentioned here.

First, the government should formulate some national policy in regard to wages, which will apply to the country as a whole, in such a manner as to take full cognizance of differences or alleged differences in various localities and territorial districts. The problem has been introduced by the governmental control over such nation-wide industries as railroads and ship building. It is this. Wages differ widely in different parts of our large and heterogeneous country. In setting wages for instance in the railroads and shipbuilding plants, should these local differences in wages be allowed? Some claim that the cost of living varies widely in different parts of the country and therefore there should be these differences in wages. Others claim that the cost of living is lower in one part of the country than in another because wages are lower, that the cost of living is a function of income rather than of geography, and that if wages are equalized or standardized then the standard of living will be equalized or standardized. The National War Labor Board has had some researches made on this point in connection with the great number of street-car cases that have come before it. The general evidence of these researches is that the difference in costs for the same standard of living in

different parts of our country is not as great as is popularly supposed. However the national policy in regard to this important problem may be worked out, it will most certainly be determined only after careful consideration of the standard of living.

It should be mentioned here that a fairly good method of measurement has recently been evolved for measuring in scientific manner the standard of living, and it is hoped that it will be used somewhat more widely in the future.

In the second place, a national policy in regard to wages should determine and declare minimum standards of living below which families ought not to be permitted to fall, and wages should be kept at such a level as to permit such a standard of living. This is an issue now discussed in British social politics under the term, the national minimum. And we in the United States shall in the near future probably be setting minimum living wages for families as well as for women, by one agency or another. The question of proper standards of living has been the subject of some research by the cost-of-living department of the National War Labor Board. This department has drawn up for the consideration of the board two levels, one of which is called the minimum-comfort budget and the other the minimum-of-subsistence budget. After considerable investigation a minimum-comfort budget was drawn in detail for June 1918, for a man, wife and three children living in a large eastern city. The income necessary to live according to this plane of living was at that time \$1760 a year.

The minimum-comfort standard has been used relatively little in setting wages, chiefly during the past year. On the other hand there has been a great deal of research upon the question of the minimum of subsistence. Thus in 1907 Dr. Chapin estimated that probably an income between \$800 and \$900 a year would furnish a family of five with the bare physical necessities. And in 1914, the New York Factory Investigating Commission set such a budget for a family living in New York city at \$876. Today we are forced to think in terms of a price level much higher and we have not yet become accustomed to the new price terms. So it is altogether a proper question to ask what would these two authoritative minimum-of-subsistence budgets cost at the present level of

prices. In June 1918 these two budgets were brought up to date by translating the prices of the various budget items of the pre-war period into the new price level as measured by the percentages of increase of the various items. By this method Dr. Chapin's budget would have cost \$1390 and the budget of the New York Factory Investigating Commission would have cost \$1360. Independently, at this time also, a minimum-of-subsistence budget was drawn up from data from 600 family budgets collected by the U. S. Bureau of Labor Statistics, which set the minimum-of-subsistence budget at \$1380. Still another method of estimating a minimum living was also used. It was found in New York in June 1918 that the dietaries which yielded enough calories and grams of protein and which were actually in use, cost approximately \$615 for a family of five counted as 3.4 equivalent adult males. As we know that, at the plane of bare subsistence, food costs about 44 per cent of the total budget, it is possible to estimate the total budget. According to this approximation, the minimum living wage would be \$1390. It seems fairly evident then that in New York in June 1918 the minimum living wage was between \$1350 and \$1400. Since this time, the cost of living has increased probably about 10 per cent. This would mean that at the present time (December 1918) the minimum living wage necessary for a family of five in New York city is about \$1500. What it would be in other parts of the country, we do not know. The U. S. Bureau of Labor Statistics has under way an extensive investigation which will furnish data for various parts of the country. A national policy could certainly be very effective in setting and enforcing minimum standards of living.

EFFECT OF PRESENT METHODS ON FUTURE WAGE ADJUSTMENTS

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IT is the view of many hard-headed employers that the wage conditions left by the war can only be corrected through what they call "liquidation of the labor market." To reduce costs, employers must try to reduce wages. Such attempts will cause strikes, lock-outs, armies of the unemployed, soup kitchens, and relief committees, and will be followed by the gradual resumption of "business as usual" with employees beaten and disorganized. If this forecast proves justified, it will merely demonstrate the futility of this reconstruction conference. We are here to discuss plans to prevent these very evils and if wise plans can be agreed upon and vigorously carried out, we shall be able to look back to this period of reconstruction as proudly as we do to our part in the dramatic final stages of the war. And these plans, to be of value, must be made effective without delay. Reconstruction is not something that lies before us. It is going on now and while we are talking about it at this meeting decisions are being made and policies are being adopted that will be of vital importance to the future welfare of the wage-earners of the country.

To appraise properly the future value of the methods of wage adjustment resorted to during the war, we must first describe and analyze these methods. Among the dozen different wage-adjustment boards which have been organized and have survived to the signing of the armistice, four types may be distinguished:

(1) The Board of Railroad Wages and Working Conditions, composed of six representatives chosen by the Director General of Railroads to advise him in reference to the wages to be paid railroad employees, was a judicial body charged with the task of determining the compensation of employees in what had become a branch of the public service, such

compensation to be paid out of funds belonging to the government. However difficult its task, the jurisdiction of this Board was clear and definite and the enforcement of its decisions, so far as they might be approved by the Director General, was prompt and certain.

(2) The Emergency Construction Wage Commission was a board of three members, one representing organized labor, charged with the task of determining the wages to be paid employees engaged on construction work for the War Department in accordance with an agreement that the prevailing local rates, meaning the established union rates, should be paid on War Department work. The jurisdiction of this Board was also clear and definite; and since construction work for the War Department was usually on the so-called "cost plus" basis under contracts which left to the government the regulation of labor conditions, enforcement of its decisions encountered no serious difficulty. Although in this case, private employees were concerned, the compensation was paid out of government funds, so no serious objection could be raised by the private contractors affected.

(3) The Shipbuilding Labor Adjustment Board is given the task of regulating wages in the shipyards building or repairing vessels for the Navy Department or the Emergency Fleet Corporation. The jurisdiction of this Board has been fairly definite, but the enforcement of its decisions has left much to be desired. Although the Navy Department and the Emergency Fleet Corporation have assumed responsibility for reimbursing shipyards for increased labor costs resulting from its decisions, there has been a continuous series of disputes as to methods of reimbursement and as to the amounts to be paid over. Uncertainty in regard to these vital matters has caused the shipyards under the jurisdiction of this Board to evade compliance with the wage decisions to an extent that has made their enforcement always difficult and at times almost impossible. The three members of the Shipbuilding Labor Adjustment Board represent, respectively, the public, the government and organized labor. The absence of any representative of the shipbuilders has been another reason for their indisposition to comply with the decisions of the Board.

(4) The National War Labor Board was created to adjust

wages "in the field of production necessary for the effective conduct of the war," which was not already included in the jurisdiction of some other governmental wage-adjusting agency.

This Board was not held down to the prevailing rate of wages but was required to determine wages which would "insure the subsistence of the worker and his family in health and reasonable comfort." As the safety valve or the "catch-all" in the government's machinery for settling disputes and avoiding interruption to industry during the war, this Board had a jurisdiction that was at once comprehensive and vague and found itself at a great disadvantage in connection with the enforcement of its decisions. The employees whose compensation was affected by its decisions were all private employees and as no department of the government was responsible for reimbursing the employers for the higher wages they might be required to pay by its orders, these orders were naturally resented and frequently disregarded. Its authority to enforce its orders against a street railway corporation is now being questioned in the courts. The one ameliorating circumstance in connection with the National War Labor Board, from the point of view of employers, was that five of its twelve members were representatives of employers, and a sixth, ex-President Taft, was nominated by these five.

As will be observed, these four types of boards present the gradual decline and fall from a board determining the compensation to be paid by the government to what are virtually government employees to a board charged with determining the compensation to be paid private employees by private employers, said employers sometimes repudiating the authority of the Board and compelled, when complying with its decisions, to bear the resulting expense out of their own pockets.

In addition to these wage-adjustment boards there developed, a few weeks prior to the signing of the armistice, a Conference Committee, made up of representatives of the different boards and charged with the task of interchanging information in reference to forthcoming decisions in advance of the issue of these decisions. It was hoped by those who brought about the organization of this Conference Committee that uniform labor standards with reference to working conditions which it would formulate would be announced by the government

as national standards to be observed in all government work and that thus the keystone lacking to the ascending arch of a national labor policy would have been supplied. Whether this goal would have been attained must forever remain uncertain, since the signing of the armistice put an end to all efforts in this direction. This was another of the many steps forward in governmental policy that was never taken. Now that the struggle is over and we are all breathing freely again, one of the most amusing things to recall is the remark heard more frequently than any other in the different government departments after November 11: "if the war had only lasted a few months longer, as we had expected, we should have had everything running splendidly in this department."

The methods that have been described were born of the war emergency. We must now consider which, if any, of these methods may be made to serve the needs of reconstruction.

No one will be found to question the permanent utility of the Railroad Adjustment Board. The need of such a board while the railroads continue to be operated by the government is obvious. In my judgment, even when (and if) operation of the railroads is restored to their private owners, such a Board is likely to be maintained, since the mere fact that the railroad wage problem has once been treated as a national problem, makes highly improbable a return to local or provincial methods of dealing with it.

The field for the Emergency Construction Board is, as its title indicates, a rapidly narrowing and ultimately disappearing field. This Board may serve a highly useful purpose during the period of reconstruction by helping to preserve existing standards and to lessen the shock of a too rapid transition to a peace basis. Whether, with the relaxed interest in these problems and the kaleidoscopic changes in personnel resulting from the wholesale return of officials to private life now that the war is over, it will really serve this purpose, remains to be seen.

The Shipbuilding Labor Adjustment Board is less affected by the return of peace than any of the other governmental wage adjustment agencies concerned with private employees. The need of ships continues to be almost as urgent as it was prior to November 11. The government is committed to contracts

calling for further increases in the present force of shipyard employees. To regulate the wages and working conditions of these employees is quite as important and even more difficult during the reconstruction period than it was during the war, when the sanction of the broad war powers of the government, including the "work or fight" order, could be called upon to effect enforcement. Since this Board must clearly be continued, a more detailed consideration of its strength and weaknesses would seem to be desirable.

As pointed out, the principal objections of the shipyard owners to the Shipbuilding Labor Adjustment Board are two: (1) no simple and definite policy was established to insure their reimbursement for the higher wages they might be required to pay by the decisions of the Board; (2) there was no representative of employers on the Board and therefore no assurance that their interests would receive that sympathetic consideration which they naturally thought due them. Both of these objections appear to me to be well taken and to point to improvements that might be made if any similar board were to be created as a permanent governmental wage-adjusting agency. The remedy for the first defect might be found by charging such a board with responsibility for deciding itself at the same time that it readjusts wages, how the resulting expense will be borne by the government so that contractors shall receive in advance, or concurrently, amounts corresponding closely to the amounts to be paid over to their employees in consequence of a wage decision. The second objection could be met by dispensing with any representative of the public on such a board, justifying this procedure on the ground that the representative of the government is really essentially a representative of the public. The vacancy so created might be filled by the appointment of a representative of the contractors in the industry under the jurisdiction of such a board without enlarging the membership of three. Another possible method, if the industries concerned were numerous and extensive, would be to enlarge the membership of the board to five, the two additional members being a representative of the contractors affected and a second representative of labor.

Should the government continue the policy of placing extensive contracts for ships or for other equipment with private

contractors, the creation of a permanent board, similar to the Shipbuilding Labor Adjustment Board, remodeled as suggested above, would appear to be wise public policy. Only by creating such a board and giving to the organized employees fair representation upon it, can the government hope to substitute for acrimonious labor disputes, with the familiar accompaniment of strikes and lock-outs, an orderly settlement of grievances as they arise and the continuous operation of the industries in which the government is interested.

The diversity of opinions as to the need for a board like the National War Labor Board during the period of reconstruction was illustrated by the prompt recommendation of Messrs. Taft and Walsh, joint chairmen of this Board, that the Board be discontinued, and the reply by the government that its discontinuance would be highly undesirable. Should this Board be continued, it requires no special gift of prophecy to predict that the grumble of dissatisfaction on the part of employers which has followed its activities will grow to a mighty roar and that its authority to determine what private employers shall pay their employees when the country is at peace will be vigorously contested at every step. Appreciation of this fact does not necessarily involve the conclusion that there is no place for a board of this type. The conclusion would seem to be, rather, that such a board can only function successfully when its jurisdiction is confined to an industry in which employers are organized as well as employees and in which the creation of the board and the delegation of the powers confided to it are the result of joint agreement. This is another way of saying that, except in war time, a board like the National War Labor Board could function successfully only as a part of the machinery voluntarily created through collective bargaining. To pursue the subject into a discussion of the details of the methodology of collective bargaining is precluded by limitations of time.

In addition to methods of wage adjustment, meaning the machinery for effecting adjustments, there are methods in the sense of the principles upon which wage adjustments should be based. The four types of boards described were further distinguished by the prominence they gave, respectively, to four different principles.

The Railroad Board has been guided largely by precedents and has displayed great conservatism in all of its adjustments in the deference shown to established differentials both as between crafts and between districts. The Emergency Construction Board was committed in its agreement to acceptance of the prevailing rates, meaning established trade-union rates. The Shipbuilding Board gave particular attention in its adjustments to ascertained increases in the cost of living. Finally, the National War Labor Board, dealing, in most of its decisions, with the unskilled and semi-skilled, made the establishment of an adequate living wage its chief goal.

Any future problem of wage determination through adjustment boards would necessarily include deference to all four of these principles. Certainly, disregard of established differentials should be avoided. Next to education, no department of human interest is more conservative than the relations between employer and employees. While it is not true in this country that any kind of abuse in the field of employment will be tolerated because it is customary, as appears to be the case in oriental countries, it is true that departures from the customary are strongly resented and that the reasons for them must be very convincing to justify any change in the interest of reform.

Deference to prevailing local rates, in the sense of trade-union rates, represents a transition phase in the determination of wages through wage-adjustment boards. At the outset, these prevailing rates must be given great weight in shaping decisions. After a decision has been rendered, however, the right of organized workers to make any other rates than those established the prevailing rates through negotiation with employers must be curbed or the wage-adjusting machinery will soon be discredited. This means that after a decision has been rendered, the basis for subsequent adjustments must be this decision rather than any prevailing rate that may have developed in violation of or, at any rate, in non-conformity to it.

The most serious sources of labor disputes are changes in the cost of living, which do not result at once in corresponding wage changes. If some plan could be devised by which an adequate readjustment of wages would follow promptly im-

portant changes in the cost of living as measured in the budgets of wage-earning families, a long step would be taken toward the elimination of disputes. This subject has been dealt with fully by Dr. Ogburn, and I can only add my testimony to the desirability of the perfection and perpetuation of the methods of the Bureau of Labor Statistics to keep the country advised of changes in the cost of living as they occur, and the desirability of including in the agreements or regulations on which wage-adjustment agencies rest clear understandings that wages will be readjusted to correspond with changes in the cost of living when such changes amount to more than a definite percentage increase or decrease. In its last decision the Shipbuilding Labor Adjustment Board chose ten per cent as the amount of change warranting a change in wages.

That underlying all wage adjustments there should be acceptance of the principle that a wage sufficient to maintain the wage earner and his family in full economic efficiency will be denied by no one. Wide differences of opinion, however, develop over the concrete question as to how much in any given case this wage must be. These differences of opinion as to what constitutes a living wage will probably exist for all time since the determination of the question depends largely upon the personal standards of the investigator. The living wage is thus an indeterminate but highly important basic standard which all wage adjustment boards should have in mind in connection with the determination of the wage of unskilled adult wage earners.

While giving due weight to local differences, governmental wage-adjusting agencies should have in mind the substitution of national standards for local standards. Only as wage rates for employees in similar occupations are made uniform throughout the country can we lessen the highly wasteful shifting of labor from employment to employment which imposes such a heavy burden upon wage earners, on the one hand, and interferes so seriously with industrial efficiency, on the other. There is the more reason for advocating the elimination of these local differences because our national development has now largely eliminated the local differences in living costs, which used to distinguish the East from the West and the North from the South.

If the local differences are to be eliminated, great injustice will be done employees unless their movement from locality to locality, in obedience to personal predilection or to the unequal requirements of industry, is facilitated in other ways than by the lure of higher wages. At this point, the National Employment Service, which was just beginning to find itself with the signing of the armistice, deserves the encouragement and support of all thoughtful citizens. This, more than any other labor agency created by the war, deserves to be maintained during the period of reconstruction, and perpetuated during the period of peace to follow. With the aid of a really efficient National Employment Exchange, the labor supply of the country may be distributed where it is needed in somewhat the same way as the capital supply is distributed through the Federal Reserve System. An equalization of wage rates to the immense advantage of wage earners throughout the country would follow the one, as an equalization of interest rates to the immense advantage of our business men has followed the other. This equalization of rates would not, it should be emphasized, mean a lowering of rates. The same dynamic forces that make for higher earnings would continue to operate and all the more effectively because on a national and no longer merely on a local scale.

To carry out these suggestions and to frame and promote other methods of wage adjustment, we should have a permanent agency charged with this task. This cannot be done effectively by the Department of Labor since its activities very properly concern predominantly the interests of labor. An effective agency must represent employers equally with employees and command the full confidence of both. It cannot be done by a Congressional Reconstruction Committee, because members of Congress are very properly absorbed in their legislative duties and this task is not primarily legislative. For the purpose, we should have a National Commission composed perhaps of two representative employers, two representative labor leaders and an impartial chairman. Such a commission might be called the Federal Industrial Relations Commission, and by its work give that name a somewhat different significance than it has come to have in the public mind. Its task would be not that of further embittering the relations of

employers and employees by emphasizing the evils in the present situation, but that of promoting collective bargaining, adjustments through boards, and every other desirable constructive plan for substituting co-operation for conflict and bringing us nearer the new day of which we all dream, when the aims of industrial justice and the aims of industrial efficiency will at last be reconciled in a true industrial democracy.

[252]

NECESSITY FOR MAINTENANCE OF LABOR STANDARDS DURING DEMOBILIZATION

G. S. ARNOLD

Staff of the War Labor Policies Board

AS Dr. Ogburn said, if nothing can be done there is no use talking about it. I believe that there is an acute temporary situation of depression ahead of us which can be properly met if proper steps are taken. It was with a sense of somewhat modified relief that I heard Dr. Ogburn make the statement that the national policy in regard to reconstruction and maintaining of standards of living was weak. That at least implies that there is some policy, whereas after two or three months' investigation I had almost come to the conclusion that there was no policy, and in this I feel somewhat sustained by the President's message.

The effect of the war especially upon the status of labor in this country was generally unexpected. So far from following the widely expressed theory of the days of Hague conferences, labor, so far as the United States is concerned, not only did not bear the immediate burden of the war—it prospered and in some cases grew perhaps unrighteously fat. For the most part it received a higher wage, especially a higher family wage, whether the rate is measured in terms of gold, potatoes or phonographs. The standard of shorter hours—the eight-hour day—received recognition. A genuine attempt was made to improve working conditions and conditions of life generally in all war industries. More important, the ideas of conferences between employers and employees, the idea of the workman's identity with the works, showed signs of being accepted as founded upon a just principle, and as a practicable theory. Surely it cannot be said that in procuring these things labor was guilty of a vast blackmail upon the necessities of the country. For the most part there was a belated recognition of things which ought to be done as a matter of right. Before the war these things were painfully fought out, item by item, shop by shop, trade by trade. Then came the war, and adjust-

ments were made with a rush, because there were more important things to consider. Employers and employees for the most part left it for somebody else to say what should be done for the good of all. Whether that somebody else—usually the government—decided justly or unjustly is not the important thing—the point was that arbitration was agreed to, and obeyed. Striking workmen in Bridgeport meant dead Americans in France—therefore they must not strike, once they were granted what someone, rightly or wrongly, decided was just. And if in some cases too much was granted, it does not change the fact that most of the gains of labor have come to be recognized as justified and right.

These gains of labor were made possible, however, by the certainty of industry. There was an insatiable demand for a concentrated product—war material; the market was unlimited. Whatever legitimate costs might figure in production were cared for in the prices paid.

This condition of unlimited demand has now ceased. Simultaneously we now face the cancellation of billions of dollars' worth of contracts (over three billions have already been cancelled), the consequent displacement, temporarily at least, of an indefinite number of workers, and the rapid demobilization of most of our four million soldiers. More serious than this, we are facing the cancellation due to uncertainty of an undefined but enormous number of private orders for the ordinary products of peace time which have been accumulating during the past two years and postponed for the production of war material. With this comes naturally a hesitancy to purchase upon what is regarded as a certainly falling market. And lastly, Mr. Barr states that labor can now take its dirty hands out of the dining room, and eat, if at all, in the kitchen, and receives the reply that labor will stay right in the dining room and eat what it has been eating, whether there is anything to eat or not. What the results of this flood of unhappy circumstances may be is of course not to be predicted. In some instances the ancient and overworked law of supply and demand will undoubtedly be invoked to authorize a drive on labor. But there are many circumstances which will combat any conscious effort to do this, even in the confusion of the next four or five months.

In the first place, a very respectable portion of labor is working under government supervision, and under established standards—possibly two millions in the railroads, half a million in the telegraph and telephone, cable, radio and express service, half a million in the shipyards, *etc.* This fact will have a very considerable influence upon the standards adopted elsewhere. Many private enterprises have also announced their intention of maintaining present standards.

Furthermore, there is the realization that there is no physical reason yet apparent why this country should not proceed with increased productivity for several years to come. The desires of the past two years for everything but essentials, and for some essentials, have gone unsatisfied and have accumulated. So staple a commodity as yellow pine lumber, for example, has been produced at only 65 per cent of its former rate. Nothing except the ability to purchase is needed to convert these desires into an actual demand. If credit can be arranged, the demand abroad for the products of this country will also be enormous, and it is confidently expected that credit will be arranged.

But since the cancellation of war contracts and the demobilization of the men is being conducted with little regard to the requirements of industry or the labor situation, and since the certainty of market, which characterized the war production, is now gone, and the demand for peace-time production, however extensive, is as yet indefinite and uncertain, there is likely to be a surplus of labor, or rather a confusion of unplaced labor, before the winter is over. This is likely to be so, no matter how bright the prospects for a tremendous demand for our products may be. And this in turn will mean competition for places and a lowering of wages more rapid than the decline in the cost of living; eventually it would mean bitterness and strife and a loss of much or all that has been gained during the war. The effect of all this upon the labor which has remained in this country, and has at least had the opportunity to save up something against a temporary depression would be sufficiently undesirable. But more important is the effect which it will have upon the men returning from abroad. To them it will seem as though the supposed laws of economics could be suspended easily enough while they were

away fighting for a dollar a day, and while the workers in the shipyards were receiving ten or twelve. They will doubt whether these same laws cannot also be suspended for a while after their return, in order that they too may have some share in the prosperity. Those of them who think, will wonder whether the high idealism which we fling over Europe is reserved for foreign use only, or whether some of it cannot be adapted to our domestic economic relations. And if it cannot, it means—not the hobgoblin of Bolshevism, but a reversion to antipathies between employers and employees more intense than they were in 1914.

I believe that the conditions of unemployment and suffering upon which any such reversion of feeling would be predicated can be avoided even now by proper action. It cannot be avoided by any so comparatively simple expedient as the establishment of a minimum wage, or other inactive government control, but by the adoption of a sane policy of distributing labor, encouraging industry, and providing temporary employment over this most abnormal period.

Primarily, the remaining demobilization should occur with reference to the industrial needs of the localities to which the soldiers are, or desire, to return. To this end, the Department of Labor, in co-operation with the War Industries Board, is preparing from week to week a labor barometer, showing the anticipated immediate needs of industry throughout the country. This compilation is prepared from telegraphic data furnished by the local community boards of the employment service, from trade journals, and from other available sources of information. From it can be determined the anticipated percentage of increase or decrease in the labor requirements of any community, from week to week. It is constantly available to the War Department, for use both with reference to the cancellation of war contracts, and, as soon as the employment situation seems to become dangerous in any community, for the purpose of preventing any aggravation of the situation by retarding the demobilization of troops of that community. This expedient would merely prevent confusion by providing for the demobilization of troops where they will be most easily assimilated—it would not in any way prevent a widespread unemployment.

There is, however, one great possible reservoir of temporary employment which could be made available, at least as soon as the winter is over. I refer to the immense amount of public work, municipal, state, and federal, which has been suspended or prevented because of the war, and also to new public work, productive in its nature, which might wisely be provided, if unemployment exists. To this I especially direct your attention, since if provided in sufficient quantities, and under proper conditions, it seems to me the logical safety valve with which the situation, however it presents itself, can be made reasonably safe.

This "buffer" employment is of many kinds—national and state roads, waterways, delayed railroad work, irrigation and farm reclamation, streets, municipal utilities, *etc.* The amount of this public work which has been delayed or suspended is estimated at between three and four hundred million dollars. There have accumulated before the Capital Issues Committee applications to issue municipal bonds to the amount of eighty million dollars. New work, planned by the several states, contemplates the expenditure of over three hundred millions. Necessary railroad construction is very large. The estimates of the various city and state officials with whom I have communicated show that from 45 to 65 per cent of these expenditures will go directly to labor. That may be a little high. I am inclined to believe it would be more nearly between 40 and 60 per cent. There is probably nearly a billion dollars, exclusive of railroad work, available in present municipal, state and federal projects under contemplation for 1919. If this public work is no longer delayed, and if in addition, the federal government will provide for substantial appropriations for such projects as Secretary Lane's plan of reclaiming land for returned soldiers, and for the further building of roads in co-operation with the states, the employment situation of next spring will be much relieved. The conference of the governors of the several states, which I understand is to be held in Annapolis this month, will undoubtedly consider plans of uniform legislation and co-operation between the states and the federal government, to make this employment available when it is most needed.

I realize that there are serious considerations involved in

this matter of using up at this time available credit for public expenditures, which might otherwise go into private enterprise. The possibility of additional taxation at this time is also serious. On the other hand, the situation is abnormal and temporary, and the provision to be made is for the last of the war conditions. But in any event, provision for the expenditure of any unusual appropriation should be made elastic, so that it would be available only if unemployment exists. Furthermore, it should be only for *productive* purposes—it is essentially a different matter whether the limited supply of credit is used to secure the building of a road, over which farm produce may be transported in winter, or to purchase land for park purposes and improve park property. The former has a direct and immediate return to the state; the latter has not. This possible solution of making public work available as quickly as possible seems to have substantial backing in many quarters. The trouble with it is that it will in large part require immediate and yet carefully considered legislation and appropriations both by Congress and the several states, as well as by municipalities. Its importance, as insurance, makes it deserving of more assistance than the mere passage of resolutions.

In the foregoing, it is assumed that if sufficient employment under proper conditions exists, the temper of the country will compel a maintenance of present labor standards, not necessarily the maintenance of high wages without regard to purchasing power, but the maintenance of the principles by which adjustments can eventually be secured according to justice instead of according to the relative strength of the parties. At present undoubtedly there is a great deal of labor occupying more responsible positions in industry than it is fitted for. Presumably, when other labor is discharged from munition plants, and the soldiers return, they will force out the less fit, who will in turn fill the less attractive positions which may be left open. This will mean no loss of standards, but merely a proper adjustment.

IV

DEMOBILIZATION OF LABOR IN WAR INDUSTRIES AND IN MILITARY SERVICE

THE DEMOBILIZATION OF LABOR IN WAR INDUSTRIES AND IN MILITARY SERVICE

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EVERYONE, within his own horizons, knows something of the displacements caused by the war. Only a few people, however, have had the opportunity to learn and comprehend the magnitude of the social and economic displacements in national aggregates. Modern war is not in the least like war of earlier periods. In the first place, the actual detachment of men from industry for direct military service has been far greater, in proportion to those found capable, than in any former combats at arms. In the second place, the industrial army required by the new character of war mechanisms has been vastly larger, in comparison, than at any former war period. It has required actual visualization, together with some ability to use comparative statistics and some power of constructive imagination, to obtain any adequate understanding of the economic transition produced by this war.

Not only were more shells used in single days' fighting in the recent war than in whole years of previous warfare, but each one of these new shells was a marvelous mechanism, fitted with time fuses, loaded with high explosives by processes requiring the utmost delicacy and accuracy—far more elaborate, in short, than old-time projectiles. The shell case itself was a product of steel forging and machine tooling that required in the shops of America, Great Britain, France and Italy the service of many hundreds of thousands of workers. The high explosives were made in separate factories, vast in extent, employing scores of thousands of workers, applying the knowledge and demanding the supervision of great numbers of chemists. As the war developed, it became necessary to use gas shells, and to create establishments of great extent for the making of the explosive mixture popularly called "mustard gas," and other kinds of poisonous and deadly compounds. Not only was artillery used on a much larger scale than ever

before, but the types of guns used were more elaborate, and the manufacturing resources demanded by the ordnance departments involved also the employment of thousands of workers. The rivalry for control of the air resulted in vast developments in the manufacture of airplanes.

All these things are matters of everyday knowledge of which no reader of a newspaper could be ignorant. To have had the experience, however, of walking many miles through the shops of a single plant where thousands of workers were making shells, or producing cordite, or making aircraft engines, or supplying articles that entered into the building of ships, was to feel something of the reality that lay behind the ordinary information of the newspapers, and to make vital the necessary statistical data.

Not less convincing as an experience was a visit to one great training camp after another in this country, to observe the drafted men pouring in by the thousands, and great army divisions moving out from time to time to the embarkation ports. Still more impressive was a visit abroad to see the landing of divisions at Liverpool or at Brest, and to find two millions of young Americans taken away from farm and office, from factory and school, fully militarized and forming a part of the greatest group of armies in the history of the world.

Such an economic displacement as was represented by this presence of two million American soldiers in Europe had never been witnessed before. Furthermore, to see something of the Service of Supply, to know what it meant to create the materials, food, clothing, munitions, motor trucks, medical and hospital supplies, *etc.*—was to realize that behind the two millions of men in France, removed from normal American industry, it was necessary to employ the services of several times as many men and women here at home to maintain the armies. Not only that, but while we had two million soldiers to maintain abroad, we had an additional million and three-quarters of soldiers in our camps and training centers in this country, who also had to be supplied and supported by the industry of other millions who were doing war work that was quite as real and essential as the war work of the enlisted men.

We are all aware that the complex economic mechanism of a country like ours is never in a state of entire stability, nor

has it at any time been regarded as a finished success by competent students of human society. We have always been "scrapping" parts of the mechanism, and introducing new things here and there throughout the great system. We have been trying for a long time to make the industrial relations of labor bear some favorable relation to our general theories of equality, and to our belief in the uplifting of all the people. We have tried to give educational opportunities to all the children, and to improve health administration and living conditions. We have tried to shorten the hours of labor; to establish minimum wages in the interest of civilization; to temper all the processes of industry to the growing demands of an intelligent democracy. Nevertheless, although great changes had been wrought in a period of three or four decades, these had all been made with the economic machine as a whole running regularly, and with no violence in readjustment unless of a very local or momentary sort.

The war, however, revolutionized the economic mechanism. Furthermore, the stress of war put such intensity into the processes of revolutionary change, that the converting of the normal economic mechanism into a war machine within a single year had more profound effects upon society than the changes of an entire century under ordinary conditions.

We are here today to discuss the problems in theory and in practice that arise with the ending of the war, and the slowing down of the huge economic war machine. We now have to look at the army, not as a body of fighting men or as a great force of crusaders, but simply as a body of men taken away from economic production, supported since November 11 by the public treasury in comparative idleness, who are to be brought back from camp and field, soon to be garbed in civilian clothes, and expected to become a part of the economic organization of a new period of peace. Simultaneously, we are witnessing the discharge of the still greater army of workers in the war industries; and these also are expected to be absorbed by the labor demand of a normal industrial life.

What has not been quite clear to most minds is this: The war machine, that was created out of the human forces and the capitalistic institutions of the country, cannot be re-converted into the old industrial system as we knew it before the

war. That system was "scrapped" to form the war mechanism. In its turn the war mechanism is being "scrapped"; and we find it necessary to create a new economic life out of the factors and elements now available. It will bear many resemblances to the pre-war life, but it cannot be the same.

The great industry of transportation, for example, comes into a new period with the certainty of co-operation. That is to say, steam railways, waterways, trolley systems and automobile highways must all serve the general interest, without waste of labor or capital in undue competition, because no such waste can be afforded.

It became necessary, in order to stimulate the process of converting the old economic life into the war machine, to pay very high money wages, and to advance also the average of real wages. We cannot go back to a period of low wages—a period in which human beings may be degraded by the grind of toil. The new economic machine must differ greatly therefore from the old, because it must find a way to give labor better hours, larger pay and a far greater independence and consideration.

Since the new period must be one essentially of co-operation, there must be far greater public supervision of the use and distribution of raw materials; of the supply and distribution of labor: of the relationships between capital and labor; and of the methods by virtue of which sickness, unemployment, and old age can be made less terrifying, with safeguards of insurance duly provided.

In every country today, the landed domain is regarded as the greatest basic asset, next to the intelligence and skill of the people themselves. The new period must, through statesmanship and legislation, provide for the proper improvement and settlement of our great areas of neglected lands. Secretary Lane of the Interior Department and other leaders have given this subject attention; while in England, France and elsewhere the best statesmanship is simultaneously at work upon projects which will wonderfully expand agricultural production, and give economic independence to many thousands of families. Returning soldiers can assist in the draining and improvement of lands now unoccupied, and can be made comfortable and secure through joint action of national and state governments, with their own properly guided efforts.

We are to have this afternoon from Mr. Kent a discussion of this proposed new land development, as related to the return of the soldier and the cessation of war industry. From Mr. Love we are to learn not only of the working of the War Risk and Soldiers' Insurance enterprise—a vast and noble project with which he has been identified—but also he is to tell us of the possibility of the extension of industrial insurance. From a study of insurance for the benefit of disabled soldiers, he has become an advocate of the extension of insurance to disabled industrial workers. We have found in the work of men like Mr. Love the two things now needed: first, the method by which to proceed, and, second, the leadership without which methods cannot well get beyond the stage of academic presentation.

Dr. Hamilton of the War Labor Policy Board, an authority in economics, is to discuss in a practical way the actual relationship of army demobilization to the time-processes of the upbuilding of the new industrial life. It is as truly the business of the Government to care for the soldiers in the period of transition after the war as it was Government business in the highest sense to create the war machine and care for the soldiers while in uniform. The country should expect to pay the bills for the expensive process of getting out of war, quite as much as to pay the price of taking up arms.

A special problem has arisen in the remarkable shifting of negro labor from the Southern states to meet a variety of demands throughout the North. The future of negro labor becomes a topic that deserves careful consideration, and it is to be presented by Mr. George E. Haynes, Director of Negro Economics in the United States Department of Labor.

Thus, while we are to learn of the labor conditions of a race, and of the demobilization of soldiers, we are also to have a discussion by Mr. Nathan S. Smyth, Assistant Director-General of the Government Employment Service, who will tell us of the relationship of that Government service to the movement of labor out of war industry and into normal occupations. It is a service of present usefulness, and of rapidly growing value, that the Government is rendering in its endeavor to bring together the job and the man, in a time of such unprecedented change.

Further, we are to hear from a distinguished orthopedic surgeon, Professor Freiburg, now in the military service at a great hospital in Washington. He is an authority upon our own methods, and those of the European countries, in the great work of restoring disabled soldiers not only to health, but to one kind or another of profitable employment in industry, regardless of the nature of their disablement.

I am in full sympathy with the movements and efforts which our competent speakers are to present in this timely conference. There will be great need and high opportunity for the intelligent direction of the work of transition from war industry to the newly balanced economic life. It is also, however, a comforting thing to remember that while policies of profound value may now be adopted and made efficient, there still remains the sphere of personal initiative and of self-adjustment.

A few weeks ago I was talking with the manager of an immense war plant in Great Britain, that employed many thousands of women in making shells and other forms of mechanical war industry. In reply to a question as to the future of these workers, he assured me that if the war were soon to end and these women were given a month's vacation, not more than twenty per cent of them all would come back to the factory for employment, although their wages were very high. Many of them were working because of the absence of husbands or brothers in the army. A great proportion of them would be re-absorbed in the preferred round of domestic duties.

Thus, the greater part of the war-industry labor will find its own way to post-war employment. The American farms in every state and every county will call back large contingents of the soldiers discharged from oversea service or from American camps. Similarly, all kinds of civilian employments will to some extent invite the returning soldiers.

There will, however, be a large contingent which must have the most careful consideration by the Departments at Washington and by Congress itself; otherwise there will be a sufficient percentage of unemployment to demoralize the economic life of the entire country. Too much stress cannot be given to several of the projects now under discussion. It is in unusual times like the present that large reforms find their best chance of adoption.

I have been alluding to what I call the "war-machine" from the standpoint of its economic character. It lifted our national system of production and distribution from its place as mainly non-governmental, to a new place where it was essentially a unified government agency. Including the Naval forces and some special services, almost five million men were put in uniform under military discipline. The great basic industries using steel, copper and other metals, came under control of the Government's War Industries Board. Coal production and distribution became completely nationalized. Food production and distribution in large measure came under wartime government control. The vast transportation system, including the manufacture and use of automotive vehicles, became a direct servant of the nation's Government.

These are some of the phases of the economic machine of war time, that replaced the pre-war organism of industrial life. Now, let us note that the five million men in uniform under military discipline became subject to standardized conditions. The best system that could be found was created for affording them shelter, wholesome food, suitable clothing, proper shoes, and above all the compulsory oversight of medical and sanitary services, and the use of scientific hospital facilities. We are now "scrapping" the war machine on the military side, but we are almost certain to retain—in constructing the new post-war economic system—some of the principles of wartime economic service of supply. Large-scale production, direct distribution, co-operative medical and sanitary services, a cheap and available insurance system, economy in methods of serving masses of men with ordinary supplies of food, clothing and the like—these things in some form are likely to be transferred from the war machine to the new peace machine.

As respects the war industrial army (as distinguished from the strictly military forces) many plans more or less fully worked out will persist in the post-war period. Chief among these, perhaps, are the plans for adjusting disputes between employers and associated workers. Other things have to do with the now accepted view that high wages are a good investment from every standpoint; and that relatively short hours and perfect conditions for health and safety are no longer to be opposed or disputed. Experiments in model housing,

connected with shipyards and munition works have opened the eyes of all employers as well as the eyes of public authorities, to the now accepted view that every family in the country should be decently and comfortably housed.

Finally we seem to be veering back to the doctrines of Louis Blanc and the reformers of seventy years ago, who held to the doctrine of "the right to work." This was regarded as a very dangerous and heretical proposal; and Louis Blanc's national workshops at the beginning of the second French Republic were soon discarded, with the beginning of the last Empire. But France and England stand today virtually on the doctrine that it is reasonable to see that every willing man should, through the supervision of a democratic government, be saved from the sorrows of pauperism and the anxieties of unemployment, if he be honest and loyal while eager and willing to work.

This means, today, in the best governed modern countries, that government employment agencies will help to find work for demobilized soldiers, and for the discharged workers in war industries. It also means that, as a sound public policy, the Government will advance the money for necessary railroad improvements, waterways, harbors, and other public works; that states will use their credit for further highway improvements, and that municipal governments will, as a matter of sound practical policy, take up street improvements and any other necessary public work, so that in a period of sudden change from war to peace there may be an ample field of well-paid employment, ready for all willing men, who are waiting for the more permanent opportunities that will come when the new economic mechanism of our peace period is built and in full running order.

GETTING MEN BACK ON THE LAND

WILLIAM KENT

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THE war and its consequent disturbance of our industry has brought before us in accentuated form a problem that has long been growing—the proper distribution of our people. As compared with rural communities, the cities have had a tremendous relative increase. Few of us have appreciated the bane of their overgrowth. The chief functions of the cities are dual—to assemble labor for manufacturing production, and to serve the purposes of distribution.

The labor-saving device of propinquity is carried to such an extreme as to rescatter the assembled people throughout suburban areas. Traffic congestion necessitates surface, overhead, and underground communication, until the expense of the Panama Canal sinks into insignificance when compared with that of the intramural transportation of New York; while inflated property values and rents in accordance, are a perpetual burden.

No one could have conceived such an aggregation of waste as cities afford, and yet their social attractions cause the moths to seek the candle, their sheer mass seems to create a power like that of gravitation. They defy all principles of supply and demand. Men needed elsewhere, and superfluous in the cities, find means for forcing a livelihood in the excess population. Somehow or other they create a place for themselves and become a burden upon necessary production. A census of urban population ministering to the useless and extravagant elements of city life would comprise a large portion of city dwellers. Even the mechanics engaged in enlarging the overgrown cities are wasting time and material.

The waste is largely of human material. During years of vast immigration influx, the cities have absorbed and misapplied the services of millions of people who left rural employment in Europe and found here no outlet for their trained

capacity. To the cities and towns have gone many of the most vigorous and energetic of our native rural population.

Country life has been dull and lonely, and latterly only those with considerable means need apply with expectation of reasonable independence.

Every undeserved accretion of urban population means advancing land values, and wasteful employment in serving the needs of ill-placed and unproductive people, who are either doing the wrong thing, or doing the right thing in the wrong place.

On this account our per capita food supplies have steadily diminished, despite our vast land areas, and upon the food supply must rest our national permanence and prosperity.

The spread between prices received by the farmer and paid by the consumer has not been reduced by our boasted methods of distribution and intermediate handling, but instead has increased.

Simple forms of packing have been superseded by the costly can and carton. Monopoly has taken a large mouthful, and neither public nor private agencies have sufficiently sought to save waste, or to fill void areas from areas of surplus.

The tide of population must be turned. It cannot be turned except to lands now uncultivated. Our coming farmers must be assured of adequate reward for well-directed effort, and must find in the farmer's life, from day to day, such social conditions as afford a satisfactory answer to the great riddle: "What are we here for?"

We have been moving west in our agricultural operations. The theory of the "margin of cultivation" has been at work, but the tendency to abandon farms near to great markets has been due to other factors—to bad farming, bad marketing, lack of credit and capital, and to unnecessary soil depletion. Parallel with this abandonment we find sporadic patches producing profitable yields under intensive truck gardening and small-fruit culture, showing how far the abandoned areas are really above the "margin."

The pioneer conditions under which our northern Atlantic states were settled were hard, but the settlers' demands for many things that are now considered necessities were small. Food and clothing and a small surplus for barter were secured under

primitive agricultural methods, with little capital and much labor.

In the South the institution of slavery and the heedless depletion of soil fertility due to farming methods and to the soil strain of the staple crops, cotton and tobacco, caused a continuing migration to virgin or more fertile lands, an insistent demand for fresh slave territory which finally caused the Civil War. The utter impoverishment of the South and the unfamiliarity of the white man with manual labor were supplemented by the backwardness of the Negro.

Throughout the expanse of the abandoned and undeveloped portions of the south Atlantic states are examples of the wonderful production to be obtained on lands, which, though often initially infertile, possess the advantage of long seasons, adequate rainfall, and good drainage.

The cut-over areas of the north central and northwestern states often possess soil fertility, but the problem of digging out stumps and clearing by the unaided toil of the individual, offers an appalling vista of unproductive years. We have never taken sufficiently into account the loss incident to the time taken by manual labor to clear and subdue farm lands. It is simple to show the slowly increasing production that goes on with acre-by-acre clearing and with the soul-destroying irritation of plowing amidst stumps.

The irrigation areas vary in productivity. However rosy may be the prospect of crops insured against drought and often climatically exempt from frost damage, there is little that is cheering to the settler without capital. Oftentimes he has invested his all in his initial payment. Without adequate housing, without horses, he faces the unbroken sage brush and the unleveled land. His pitiful efforts with hand tools are interspersed with working for wages, till often broken in pocket and spirit, he abandons fertile soil with water at hand, because he cannot make connection with natural resources where capital or credit is lacking. Grubbing sage brush with a mattock is a criminal waste of life when a tractor will tear out and break eight acres a day. While many successes have been recorded, there is throughout the West the remembrance of countless tragic and unnecessary failures, with the prospect of many more, until the time comes that settlement means application

of labor directly to production, and not the mere placing of a human body on a fenced piece of land.

It is trite to state that agricultural production calls for land, labor and capital, but to most of us it has not been so clear that the necessary ingredients are needed in widely divergent ratios. Prairie farming has called for much land and comparatively little labor or capital. It has been subject to extreme costs between production and consumption. These costs may be largely remedied, but there will always be required comparatively long hauls and expensive freight charges to reach foreign markets or the largest centers of American population.

Truck gardening near the market requires little land, small capital, and immense labor, with no inherently heavy charge for selling, but a considerable risk on account of the perishable nature of the produce.

Fruit growing calls for varying amounts of land and labor, but for considerable capital to await production, and great risk from natural causes and often from the uncertainties of market conditions.

The prairie lands yielding cheaply staple grains and live stock are practically all taken up.

Future development must be found in reclamation of various sorts. There still remain portions of the arid public-domain where irrigation may be promoted. This involves large capital investment.

There are areas that can be reclaimed from swamps, with varying costs which must be met wholesale. But chiefly to be relied on for extent are the abandoned lands and the unused lands of the East and the cut-over lands of the South and of the Northwest.

The problem in each case is to secure and economically to apply the large capital fund necessary to make land immediately productive.

In some cases water must be supplied; in some cases drainage must be obtained. Here we must clear off stumps and brush, and there we must supply and develop soil fertility.

The problems of settlement involve doing these things with machinery, doing them rapidly, and on an immense scale.

The lands of greatest fertility, where the least capital and

labor are required for production, have increased tremendously in selling value.

Under our fee-simple tenure, there is in some places a continuing tendency to aggregate into large holdings farmed by hired labor, or by tenants. Otherwheres we find a breaking-up of large speculative holdings, but everywhere an increase of private tenancy, which is an admitted menace to our social and economic welfare.

Whatever may be the abstract ethics of rent or interest charge, it is not well for people to live in idleness on the product of others. No restrictions of leases in private tenant contracts can prevent wasteful, careless farming, with the natural tendency and temptation to soil depletion and heedlessness of upkeep that go with temporary and shifting occupation.

The policy of land settlement is far bigger than the immediate provision for soldiers and sailors. It should not be confined to war displacement. If opportunities are to be offered, there is justice in showing first preference for those who have risked their lives for the republic, and then next to those whose occupations and employment have been overturned or destroyed by war emergency or its ending.

But there must be a redistribution and a procession "back to the land," whether soldiers and sailors wish to lead it, or whether others shall avail themselves of the chances. Somewhere we must find those who by inclination and qualification are willing under favoring circumstances to undertake the task of increasing our food supply.

First, let us consider the question of inclination. It has long been recognized that farm life is hard and lonesome. Our prairies, largely held in quarter sections, placed people half a mile apart. The natural requirements of social life were denied them, and the town and city had an irresistible fascination. We have but to consider how wide a departure this is from the village rural life of Europe to see where the remedy must lie. We must more and more work toward community life, such as is now possible under the intensive farming of irrigation districts. Land holdings will normally tend to become smaller, with equal output due to better methods, and community life must be given a proper development. The parcels post, the telephone, the cheap automobile, are all work-

ing toward closer association. Co-operative use of tractors, abandonment of useless fences with their waste patches and weed beds, and the use of the latest farming machinery will also urge this tendency in days to come. Scientific agriculture and technical education that makes it possible will, when coupled with community life, tend to stabilize farm life—as a satisfactory and permanent career.

No settlement policy can be solvent unless it carefully discriminates in the selection of those who are to be given opportunity. They must be interested, able-bodied, capable, and qualified. Agriculture, no more than school teaching, is a proper recourse for tag-enders and failures. Settlers must be aided by the careful selection and preparation of land, and by advances of capital to bring such land into production, when supplemented by the settler's labor, and any policy not inherently solvent would be an intolerable burden and an element of evil to any country that tried it. Settlers must be taught what to do and how to do it, not out of books of theory, but from pages of actual local experience.

A careful study of the situation, of the large capital needed, and the narrow margin that should be charged for rendering the service of land settlement, leads to the view that it should not be left to private initiative. It is essentially a public service. There should be intimate co-operation between the states and the nation in any land-settlement policy. It is true that such settlement might be carried through, as in the past, through irrigation and reclamation projects on portions of the public domain and entirely by the federal government, but these are necessarily subject to state taxation and to a measure of state control, without any definite co-operation agreement with the nation.

The states could perform the service independently of the federal government, as California is now doing on a small scale. But the problem is one of national importance to which the national credit should be lent, and a greater degree of uniformity could be assured through national supervision and assistance.

The state, with its well-defined taxing power, can best handle such questions as road building, where benefits should be assessed against the land profiting by improvements.

Funds expended in the states by the federal government are as a general matter spent and gone without possibility of recovery, as is evidenced in our river and harbor appropriations. Uncle Sam can pay damages, but cannot assess benefits.

In the case of reclamation projects, government expenditures are added to the per acre price of lands reclaimed, but there are often general benefits outside the reclaimed area which should be paid for by others than the specific settlers.

Any state with a self-respecting sense of its responsibilities and a desire for orderly progress would naturally better comprehend its immediate needs and conditions and better meet them than a centralized authority in distant Washington.

Let us turn for a moment to consider the question of farm credits. That question, as furnishing a productive agency, is not reached and hardly even approached in the United States, by any means, private or public. Benefit has accrued to farmers and to investors by the creation of our land credit system, which supplements the private agencies that have heretofore lent funds on mortgages. But lending money on mortgages bears the same relation to production in the agricultural field, as does pawnbroking or collateral loans by banks, in commercial transactions. The owner of the most available standard land worth perhaps \$200 per acre can easily borrow from private investors up to \$100 an acre. The funds may be used to buy more land, or for any other purpose, productive or otherwise. But consider the case of a borrower who would subdue a piece of brush land worth \$5 an acre or one who would plant to orchard land of small value, with the need of waiting years for returns that eventually would be large. Consider the case of one who, by years of cultivation and the use of expensive fertilizer, would make barren sand permanently productive.

There are innumerable cases where advance amounting to ten times the value of the raw land involved would be paid out of but few intensive and valuable crops.

It is as necessary to furnish a credit system to meet such requirements as it is that banks should furnish credit for mercantile and manufacturing operations.

Mortgage loans at reasonable rates are a benefit, but in a sense offer an example of "To him that hath shall be given," and the tenant is hopelessly barred.

The machinery that will safeguard such productive credit has been created in other countries, and differs in no essential particular from the security obtained for mercantile advances. It is a question of organization of local units under a general system, so that eventually a comparatively small number of neighbors guarantee and watch each other, with the penalty of loss of future credit for delinquency.

Under an adequate plan of settlement, these credit needs would be recognized at the outset. It is necessary to consider them to make the question of the needed element of capital clear.

As we enter the field of concrete illustration, I urge as one of the most important factors in any system of settlement the question of the form of tenure upon which such settlement should be based. We take for granted the evils of tenancy. We also take for granted the wrong that arises from withholding land from production, also unearned profits derived through land speculation. We also recognize clearly that society should demand not only full use of land, but undiminished and even increased productivity. We recognize that government should prevent destruction as found in the millions of acres hopelessly eroded, most notably in some of the southern states, and deliberately destroyed by gold dredging, as practiced in some of the most fertile and productive areas of California.

In accordance with the free and easy verbiage of royal tradition, we bestow land in fee simple, to "Richard Roe and to his heirs and assigns forever." This is indeed a full grant for a considerable period, if we take note of the formula. We next inform Richard that we propose to levy whatever taxes we see fit upon his property. We then inform him that as far as his heirs are concerned, they can, at his death, dispose of it at forced sale, and pay a part of the resultant proceeds to the state and another to the nation. Some states compel him to cultivate and to eliminate weeds; others tell him how he shall cut his wood lot. Poor Richard is everywhere met with a denial of the high-sounding words of his title deed. The limitations are neither coherent, uniform or rational, nor do they touch the evils of tenancy or speculation.

Why should we not in our future planning avoid this process

of giving, and subsequently taking away, by providing for permanent tenure under such conditions, that make unnecessary this subsequent remedial control. There is one way in which it can be done, a way recognized in other countries, most notably in the Australian commonwealth and in New Zealand, and that is by giving a limited title at the beginning, subject to resumption by the state on violation of specific regulations.

Now let us see how our plan might work out. Let us say, that there can be found in the State of New Jersey a tract of ten thousand acres now lying waste, which, by the application of adequate capital, can in two or three years be made productive for qualified and selected settlers. Let the State of New Jersey buy that land at the lowest possible price. Thereafter the state should invite the federal government to look it over, and see whether it is of such a nature that the nation will co-operate in its settlement. Once the federal government has accepted the project, then men and machinery should be put at work to clear, level, and to apply such elements to the soil as are needed for production. There would be no long drawn out misery, of grubbing and clearing by hand, but less eventual cost per acre, and less time consumed in the process. The land being cleared and prepared, the federal government should provide funds for necessary buildings, with domicile either on the property itself or in a central village. The federal government should furthermore advance through co-operative local credit-centers sufficient funds for needed personal property in farm implements and live stock. Before the settler goes on, it should be in such condition as to produce crops in the next growing season.

The settler, carefully selected and required to make at least a small payment for his holding, should thereafter be subject to pay to the state for a set period of not less than twenty years a fixed sum, as interest on the original purchase price—this to the state in lieu of land tax. That such interest payment might cover insurance for delinquencies and expenses, the rate should probably be 6 per cent. The settler would also be liable to the Government for amortization payments on personal property in not more than ten annual installments, together with interest at 4 or 5 per cent. He should furthermore be liable to the Government for amortization payments on the cost of permanent

improvements and clearing and putting the land in condition, which payments might run over a period of thirty to forty years, at 4 to 5 per cent.

Permanency of tenure could be assured, subject to proper cultivation, although the fee-simple title would not pass out of the state. The right of inheritance would be respected, subjecting the successor to the same terms as the devisee. A man could give his property to anyone satisfactory to a local board composed of state and federal representatives, but no one could secure this limited title without assurance that the individual who took it proposed to work the land under the restrictions set forth. Every safeguard should be placed around his tenure, as against the accidents of life, so that the occupant would feel secure, even through crop failure or other destructive hardship. If the settler desired for any cause to move from his land, he should be permitted to sell his contributions to the property to a person satisfactory to the board. In addition, this board should stand ready to re-purchase the property in the event of no purchaser being immediately available, paying him all that he had contributed by amortization and by his own work. He should be paid the then value of improvements added by him, and the then value of improvements supplied by the Government, less the unpaid debt against them. He should be credited with added soil fertility and value of orchard at the time of removal. His allotment could then be again turned over at the sum ascertained to some one willing to carry out the conditions of his contract.

Here is a plan that eliminates a large part of the element of pioneer hardship and risk—a plan that makes land speculation impossible, and one that destroys private tenancy. It can be developed along lines that make rural life more attractive, and if carefully administered, it is above all a solvent plan that, while paying itself off out of product, is a permanent enrichment of the state and the country.

The speculation privilege, with the unconscionable profit derived from the needs and the breeding capacity of other people, is eliminated, but there is also eliminated at the other end the struggle and misery accompanied by tremendous percentage of failure, in cases where an individual tries to dig out a livelihood, under conditions unnecessary and even misunder-

stood, and where he usually lacks the capital needed to make his effort count at the critical time, which is at the beginning.

As a final general idea, I wish to state that in my opinion the greatest need and the greatest possibility for such a settlement is near the Atlantic coast, where population is worst distributed, where millions of acres of available land is lying waste, and where the demands of a hungry market are close at hand. The difference between corn and wheat values between Omaha and New York are upwards of 25c a bushel. It is an unmitigated absurdity, that with the eastern states pre-eminently qualified to raise the best of apples, we should be forced to secure our supplies by freight from distant Oregon. Almost any land will raise potatoes, which have been selling at prices unconscionably high.

The needed application of credit and labor can best be made by the co-operative effort of the states and nation. Again, let me say that nothing excepting the retention of title by the state or the nation can fend against the reaccumulation of developed areas into large holdings, with the recurrence of the evils of speculation and tenancy.

We are, after all, but tenants of the world and of the state. We may be deprived of life and liberty at the will of the Government of which we are a part. Are we wronged if in future agricultural settlement, where much of the element of risk is eliminated, and where immediate means of livelihood are supplied—if with such opportunity conferred—we are denied the privilege of profiting by the effort of others, and prevented from profiteering out of the common need for land?

ENGLISH AGRICULTURAL LABOR PROBLEMS AND THE EUROPEAN FOOD PROBLEM

SOPHIA CAREY

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WHEN I was asked to speak on labor conditions in Great Britain I asked the privilege also of putting before you at the same time the subject that is dearest to my heart—the feeding of Europe. At first sight, you may feel that the food conditions of Europe are rather far away from the subject of this conference, but if you stop for a moment, you will realize that food is the oil by which the whole of the great machinery of world industry swings smoothly on its pivot. As soon as you do not have food in sufficient quantity, or the cost is too high, you have strikes, unrest, industrial troubles, and you may even have worse conditions of anarchy and chaos, as in Europe and in Russia today—a situation that it seems impossible to find a speedy road out from.

Today food has still further value to all those interested in industry. We are today faced with the fact of great national war debts to pay off. At the same moment government contracts are coming to an end, and the great industrial world is faced with finding its markets again among the purchasing public and possibly with a reduced wage, which would mean that the purchasing power of that public will be lessened. This in turn means less demand for manufactured articles and that must create a period of unemployment and depression unless new outlets for your produce are at once created. Backed as you are today with this wonderful new merchant marine service, however, you can seek new foreign markets. Business men know that one of the most costly parts of any great business enterprise is the capturing and establishing of a new market. You have only to look at your magazines and bill boards to see the costs of advertising, and to get a glimmer of only one side of winning a new market. Today you have an opportunity

such as the world has never known of getting acquainted with foreign markets if you will help and feed Europe, placing the food at their door at a price they can pay or allowing liberal credit. There is the open door to your new markets, the opportunity to win them at the smallest possible cost. You know very well, if any of you have ever known what it is to be hungry, and somebody says "Come in and have dinner with me," and you go in and get a good dinner, you don't forget that person, and later on, when you may be more prosperous, and an opportunity comes how gladly you do that person a good turn. Europe is hungry today, Europe is starving, and if you will put your effort into the feeding of Europe you will find that your deed will not fail of its reward, and it will bring to you the foreign trade that you need for these great boats that you are building, and thus bring the work that the country will need to keep everybody employed at good wages. And there is a further value in this food situation to the industrial world. We have to face the demobilization of labor in certain sections, at any rate of labor in wartime work. Where can you find a better field for demobilization than in the development of the great agricultural wealth of this country? I have been amazed since I have come to this country to pass miles and miles of land on which only weeds and waste grass is growing, land which looks as if it had enormous possibilities, and yet you will not find even a cow or a sheep or a goat or a pig on thousands of acres of this land. Think of the difference it must make in the wealth of this country if more people were put in to develop the land. Here is, not only a field for your demobilized men, but a field for your women. Since I have been in this country, men say to me, "We can't have our women working in the fields." You look upon it in some parts of your country as if it were almost a disgrace and yet I do not consider it so. I go down and see your women in hot stuffy factories, sitting over a machine all day long; I go into your great offices, and even in some of the government offices, and in half an hour I am overpowered by the heat—I was in the Food Administration Office in Washington the other morning and I was so glad to get outside, I could hardly breathe—and you have women working there. Are these ideal conditions for women who are

going to be the mothers of the next generation? Cast your eye over the picture of women out in the fresh air. In your factories she often does some single movement of the hand or arm year in year out often with street or cabaret her only playground when the weary day's work is done, whereas out in the open she is doing a hundred odd jobs, feeding the cattle, tending to the various needs of the farm, helping with the crop, haying and harvest. Which of these women do you think is going to make the best mother, and the children of which mother do you think will have the best chance and start in life? Surely, if there ever was one employment in the world that gives a woman a chance for health and vigor it is work on the land.

I think the question of food touches the whole question of the industrial world. I had charge of the work of volunteer food supplies for the civilian population in the unconquered corner of Belgium for the first year and a half of the war. In the devastated districts—how I wish you could see it—the beautiful forests and trees have gone, the earth is torn up by these great shell-holes, many of them 30 or 60 feet deep. The fertile soil was the wealth of Belgium, and as you know, the fertile soil only goes to a depth of from one to four feet in Europe. Therefore, when you get down 30 or 40 feet, and throw up the rocks and sand from the bottom, you can understand it may be many long years before you can bring back the original fertility of that country. As you begin to pass through the villages, you may pass five or ten or fifteen villages, and not find a piece of wall standing. And, what of the people? Many of them of course fled to England and southern France, but not all, especially those who lived in the agricultural centers. Those little homesteads belonged to them, they had come down to them from father to son, and when the military authorities wanted to evacuate them they said, "No, we are not afraid of the Hun or of the shot and shell; let us stay by these little homesteads that we may have something left for the boy when he comes marching home." So, notwithstanding shot and shell they stayed, and when their little homes were knocked down they took pick and shovel and dug down 30 or 40 feet into the ground, and in those dark and unventilated dugouts many thousands of the civilian population in the devastated areas of

northern France and Belgium have been living for four weary years, waiting for America and the Allies to win them back their country. Passing on to the roads that lead from Germany back into the devastated areas, into France, Belgium, Serbia, and Poland and Roumania, the roads are lined with hundreds of thousands of women and children trooping back, half clothed, half naked, hungry, from slavery in Germany, but back where—home, and what is home? Just a little pile of brick, just a little torn-up patch, and they are going back to that to face the winter. You say, "What is France doing, what is England doing, in not opening hospitable arms to them?" Surely, there is all the hospitality in the world for them, but four years they have been away from home, and it is home they want, just home. They want to get at the work of rebuilding those walls, and tilling the soil. These are the people that are pleading today for food—cheap food, and turn your eyes from that picture, just one moment, to the picture of life right here in New York city, and ask yourselves is it right? No longer can we really talk of our being separate nations, Americans, Frenchmen, or Italians. The world has changed too much for that. This great aeroplane service that will bring London within 24 hours journey from New York city, and Rome within 48 hours for 30 to 50 passengers at a time, the great invention of wireless telegraphy, all these marvels, will bring us so close together that we cannot talk of "foreign" countries any more—we are neighboring allies, friends! Because there is a little patch of 3000 miles of water between us, does that make our responsibilities for their sufferings any less? Let us take a peep into Russia. In central and northern Russia the conditions are so appalling, and we can do so little, that right through this winter millions are going to die, and we cannot even save them. And after the declaration of peace Mr. Hoover will come with new problems that he will put before you for food distribution and production. I earnestly beg of you to throw your whole support back of your government, because in the feeding of Europe when peace is settled and the trade routes and shipping open again to the entire world is the one chance to bring order out of chaos, and to make the world happy and prosperous again.

Now, as to how England met the food shortage situation. In the early days of the war we waked up to realize that we were a tiny island, and our food supply was cut off. We only grew one quarter of what we consumed. We were not a crop-growing country, we were a stock-raising country, and our acreage is a little less than the acreage of the State of New York, and something had to be done. Ships were going to the bottom, loaded sometimes with millions of pounds of food. We immediately started to organize the women's labor. Then we had to face the proposition of the available housing facilities; for under the system of landlord and tenant farmer very little had been done for a great many years to put into effect anything like a decent housing proposition, and our people had lived in miserable little houses, and provision must be made for those who were going to be drafted in from the cities and homes of leisure. A plan was immediately evolved for providing for them in community camps. Camps were put about the country in any farming locality where labor was required, and then the girls went to live in these community centers. The farmer would send to the camp for labor, and each morning the army of girls would be distributed among the farms as needed. There was no cessation of labor, and the girls could be kept employed all the time, and the farmers could get the help that they needed when they needed it and not pay for it when they had no work. I think it has been largely that community spirit in our agricultural labor centers that made work on the farms so much more popular in England today than it was before the war. We had in the woman's land army in England some three hundred thousand women, besides a large number of women who lived in their own homes and gave part of their time to the work, and the result of the work of the women of Great Britain was to bring nearly a million and a half acres of land under cultivation that had never been under crop cultivation before, besides caring for the land already under production, and to raise the production from one-quarter of what we used to four-fifths of what we required for the coming year. The idea of co-operation has been the key to our success. The Government formed a big war agricultural committee in London, with war agricultural sub-committees in each county, and it was those little war agricul-

tural county committees that really brought about the success of the work. On these committees were put bankers and business men who are largely today land owners in the country districts, the leading farmers and the women, and into their hands the development of the agricultural interests of their own counties was placed. In some cases the county or town or district board was given supreme powers, and they could compel the people to bring their land under cultivation. So, by bringing all these different forces together—finance, business organization, farm experience and labor, we arrived at a great result, and I feel that over here in America, if more thought could be given to the development of increased food production of the country along similar lines by bringing together the farmers, the business men and the women more closely, the result would be absolutely amazing. Do you realize how enormously it would help your country through this difficult period of reconstruction if every state could bring a vast number of new acres under cultivation as were brought under cultivation during the war in the little island of England. How it would help to create new wealth, new fields of labor, and by easing the food situation, greatly minimize the difficulties in the European situation!

I leave this question with you today. It means more to the world perhaps than it is possible to estimate, and we must carry on. The boys gave their lives on the battlefields to this great cause. Let us build up a world that will be worthy of the blood that was shed. Let us make it our determination that we will carry on until the trail of death and destruction is wiped off the face of the earth, and the earth lives and rests once more in peace and happiness.

THE GOVERNMENT'S RESPONSIBILITY FOR DISABLED INDUSTRIAL WORKERS

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I SHALL not discuss the subject assigned me from the point of view of the war or of demobilization, for I am convinced that the duties and responsibilities of the government to its industrial workers are the same in view of the existing conditions incident to the transition from war to peace that they have always been, and that they must always remain, while it may be true that the existing emergency conditions argue for a prompt and effective discharge by the government of its duty and its responsibility.

During the past year in which I have had supervision for the Secretary of the Treasury of the bureau of the Government which has represented the discharge by the Government of its responsibility for disabled soldiers and sailors, I have become more and more convinced that the responsibility of the government for disabled industrial workers was of the same general kind and degree, and that it was the duty and responsibility of the government to recognize its obligation to disabled industrial workers, and to recognize the real significance of the fact that in a sense they were performing necessary duties which involved the risk of life, duties necessary for the preservation of industry and society and the general welfare. In this sense they are soldiers, and there can be but little dissimilarity in their relations to the general government.

The disability of the worker diminishes earning power and reduces output. It results in loss to the worker and his dependents, to the industry of which he is a part, and to society at large. It is the responsibility of the Government to do what it may consistently with the general welfare to prevent loss to the citizen, to industry, and to society; and if it cannot be prevented, so to order and adjust and distribute its direct and indirect incidence as to make possible its alleviation and repair.

The worker may be disabled from a variety of causes. His disability may result from injury or disease, and injury or disease may result either from causes incident to his industrial

service or from causes in no way connected with his service. He may be disabled through old age or through inability to obtain employment, or he may be permanently removed from the field of industry by death. Whatever the cause of his disability, the loss to the worker and his dependents, to industry, and to society is largely the same. The farmer also is an industrial worker, and the tenant farmer who is compelled to labor under unsanitary and impossible conditions obtaining with tenant farmers in many sections of the country, is entitled when disabled to the same consideration as other industrial workers. The responsibility of the government to the tenant farmer is the same as it is to any other disabled industrial worker; and it has seemed to me that in the very admirable address which Mr. Kent has just made, every word of which I endorse, he has pointed out a feasible, practicable and sane way for the government to discharge that responsibility.

It can make but little difference to the worker whether he is unable to work because of illness or injury contracted in the line of duty or illness or injury contracted without the line of duty, or through the disability of old age or because he is unable to obtain employment; and if the wife and children of the worker and others dependent upon him for support have been deprived of the bread-winning force upon which they must rely through the disability or death of the bread-winner, the cause of their handicap and loss is unimportant. Nor is it of great consequence where the blame for the disability of the worker may be fixed in any case. The loss to all concerned must be real and substantial wherever the blame for the disability may rest, whether upon society, or upon industry, or upon the worker himself.

Much of this loss can be prevented, and in the nature of things much of it cannot be prevented. It would seem that to-day there would be little disagreement to the proposal that it is the responsibility of government to exercise its power to the utmost limits to make every provision reasonably possible for the prevention of the disability of industrial workers from whatever cause. When all is done that can be and disability does occur, as it must, a portion of the loss inevitably must fall upon society as a whole, another portion upon the industry affected, and still another upon the worker and his dependents. It is the responsibility of government to make such reasonable

provisions as lie within its power to enable the worker to carry his inevitable share of the burden to the best advantage. It is unnecessary for the Government to carry the loss of the worker. It is only necessary that it make available to the worker the necessary machinery whereby he may carry it himself to the best advantage of himself and his dependents, of industry, and of society. An important function of Government is to provide machinery for co-operation through the use of which the citizen is enabled to do for himself, through co-operation with others, things which it would be impracticable or impossible for him to do acting alone.

The average worker earns enough not only to sustain himself and those dependent upon him while he is at work, but in addition enough to carry him through the periods of disability resulting from accident, disease, unemployment and old age, and to provide for his dependents after his death. Experience has demonstrated that, taking human nature as it is, the individual worker or individual citizen of whatever calling, if relegated to his own thrift and his own facilities for setting aside and keeping in hand and improving that portion of his earnings necessary to provide against these inevitable contingencies, is not likely to have in hand the resources necessary to meet them as they arise. Experience has also demonstrated that if the worker or the citizen can have the means of co-operation with other workers in making this provision, it is easy for him certainly to provide reasonable protection against losses resulting from his disability whenever it may occur or from whatever cause. The machinery necessary to enable the worker thus reasonably to indemnify himself and his dependents and at the same time measurably indemnify both industry and society is the machinery of insurance. The practicability of the individual indemnifying himself against loss through this form of co-operation is no longer open to question. The proofs are manifest on every hand. Originally the individual was left to his own initiative and resources in carrying the risk of the loss of his property by fire or of the loss resulting from personal accident or disease or death, or from various other causes. But long since provision was made whereby the individual might join a group and pool his risks so that the loss, when it occurred, should be absorbed and conveniently distributed throughout the group, each member carrying his risk of loss,

but through co-operation with others similarly situated carrying it in such fashion that when the loss occurred it falls lightly upon all and harshly upon none.

A decade ago industrial workers throughout this country were left to their own haphazard initiative to carry the risk to themselves and their dependents resulting from their death or disability from occupational causes. Today the laws of more than thirty-eight states of the Union require that industrial workers shall be employed only under terms providing for their safe and reasonable indemnity against loss through disability arising from occupational causes.

Why cannot a government provide machinery whereby the worker may be indemnified against disability from any other cause as well as from occupational disease or injury? The practicability of such protection through insurance has been demonstrated by the Government. It lies within the power of the Government to make the existing partial protection complete. It is its responsibility to do it.

The proposal that the Government shall provide for the reasonable protection of the worker against loss resulting from his inability to work from whatever cause, through the medium of insurance, does not necessarily involve any proposal for Government insurance. The necessary governmental requirement is that contracts of employment shall include provision for definite and safe insurance indemnity against the disability of the worker, the solvency of the insurer and the terms and conditions of the insurance to be acceptable to the state. The proposal does involve the wide and salutary expansion of the utility of insurance as an institution, and it may very well involve the possibility of a very broad expansion of the private business of insurance upon fair terms and at reasonable rates. Should the Government make such a requirement it might prove advisable or necessary for the Government to provide for carrying, through its own insurance facilities, such of the necessary risks involved as private insurers were unable or unwilling to carry upon terms and conditions necessary to the general welfare, just as quite recently it was found necessary for the Government to provide its own facilities for the carrying of various insurance risks necessary to the winning of the war, for which no adequate private facilities existed.

There are numerous details, many of them important and

some of them most difficult, connected with the proposal. There is the very important point of protection against malingering, which it is necessary to meet in all insurance proposals, and the question often raised as to who shall pay the cost of the insurance—who shall make the necessary contributions to provide the funds necessary for the desired indemnity. These are questions of ways and means, and it is the responsibility of the Government to solve them equitably and fairly, and in such manner that the plan will work. It is important no less to society and industry than to the worker himself and his dependents that he shall receive a living wage affording not only enough properly to sustain him and his dependents while he is at work, but also enough to enable him, through co-operation with others similarly situated, to indemnify himself and his dependents against losses resulting from his inability to work for any cause. The cost of all these elements must come ultimately from the product of the worker's toil. They are all essential parts of the living wage, and it is not of great importance whether the part representing the cost of his indemnity against disability is paid to him in money and by him repaid to an insurance fund, or is paid directly to that fund without his intervention.

The value to industry and to society of providing this complete protection against the disability of industrial workers cannot be over-estimated. It cannot increase, but must largely reduce the burden which existing conditions force both industry and society to bear. The cost of making the provision, on whomsoever it might fall directly or indirectly, would not be an expense but an investment. Viewed from any standpoint, it will pay, and it will come into being as rapidly as society becomes awakened to that fact. Under the stupendous impulse of unselfishness afforded by the great war which has just ended in a glorious victory for unselfishness, it should become easier to realize that unselfishness pays.

At a dinner in Washington recently I heard a distinguished Frenchman say, that if rascals could understand how much it pays to be honest, all men would become honest through sheer rascality. By parity of reasoning, if selfish human beings can be brought to understand how largely and directly self-interest is promoted by the general welfare, all men will become unselfish through sheer greed.

THE RESTORATION OF DISABLED SOLDIERS TO INDUSTRIAL SERVICE

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IN past years and in connection with past wars, the disabled soldier has been managed in different ways, but for the most part not wisely and not well. He has suffered from indiscriminate and ill-considered efforts to help him in his unfortunate condition just as indigent persons have, in civil life.

I remember very well being in a foreign capital a good many years ago and seeing a man with a tattered uniform, an old soldier, grinding a hurdygurdy. Upon making some remark about it I was informed that this man had been given his hurdygurdy by the government as a means of helping him. This represents, perhaps, an extremely bad way of helping that soldier but there have been other bad ways of helping disabled soldiers. I am happy to be able to say that all of the progressive governments engaged in this war have taken better steps to assist the men who have been permanently damaged in their service.

It is apparent that what the soldier requires is something which will make him self-supporting and self-respecting; something which will enable him, not simply to exist, but to make a living in such a way as to permit him to compete with other men who are not disabled, or at least not mutilated as he is. In other words, if we cannot dispose completely of the mutilation can we perhaps dispose of the man's disablement? It is because this has been found to be practicable that it is worth while discussing this matter at this time.

Such a program is, of course, one which comprises several distinct parts and they should be kept distinct in our minds if we would do our work well. The first part is that which deals with the reduction of the soldier's physical disability to its lowest terms. I have no intention of speaking now of the technical matters which comprise the reduction of the soldier's

physical handicap. Some of them might be very interesting to you, I dare say. Progress in surgery and in medicine has done very much to accomplish such a reduction as compared with what could have been done fifteen or twenty years ago. This progress has made it possible to do very differently for the soldier from the moment he is wounded, and the conduct of the surgeons at the front is a very different thing in this day from that which it would have been only ten years ago; medical science has much more to offer the wounded soldier today than it then had.

The conditions of disablement with which the men come to us vary quite greatly and what requires to be done for the man depends, naturally, upon the character of his disablement. It can very readily be understood that the course to be pursued with a blinded man will be very different from that in the case of one who has lost the right arm; the task in the case of one who has lost the right arm will be quite different from that involving the loss of the left arm. I shall not enumerate the different forms of disablement which are encountered; there are enough of them, I assure you. It seems to me that the most important thing for us to think about at this juncture and with respect to all of these injuries, considered in a collective way, is their effect upon the soldier's morale. That this effect is a peculiar one you will not easily appreciate unless you have had the advantage of contact with the men themselves. Many of these men come to us with their morale decidedly impaired; not in the sense of being sorry for having made the sacrifice for the sake of our country, nor in any sense coming back like whipped or beaten men because they have to carry throughout their lives decided evidence of physical impairment; nor is it because they realize or fear the effect of a considerably lessened industrial efficiency. I refer rather to an attitude of doubt or suspicion which needs to be overcome. There can be no question that some of the injured men have the feeling that the government is striving to reduce their handicaps with a view to minimizing its own debt to them rather than for their own sakes and some of them harbor the idea that if they try too hard in assisting to overcome their disablement it may in some way lessen what the government will do for them afterwards because they have done too well

for themselves. Now this is a perfectly natural thing; on the face of it one might be tempted to be somewhat amused over it. It is, however, a perfectly serious condition which is encountered and which needs to be met with much tact. The men whom I have in mind have nothing about them of the character of the malingerer and they have nothing in their records to be ashamed of, I may assure you. In fact, when a man has lost an arm or a leg it is both difficult and unnecessary to pretend. This situation needs to be taken into consideration, however, and in a most sympathetic manner.

Still more important is the loss in morale which some men exhibit and which is to be ascribed to impairment of the spirit of self-reliance, due to the fact that they have still to be shown what they may be made to accomplish in the way of effective labor. This loss can be made good only when the man can be shown by his own accomplishment; it matters not how eloquently he is spoken to, nor how much he is given to read about the possibilities of restoring mutilated men to industrial activity, it is quite impossible for the man himself to imagine his own re-establishment until he has begun the demonstration upon himself. In the case of more serious forms of disablement, the first efforts at productive occupation may be very discouraging by reason of the difficulties which are to be expected. I have encountered a certain number of men whom it was difficult to interest in their own problems for reasons which seemed very obscure at first and which became apparent through giving them the opportunity of visiting their families before the real job of physical reconstruction was tackled. Once realized, the feeling of such men can easily be appreciated and must be looked upon as rather creditable than otherwise. Such men, having passed through the period of wound healing, felt themselves to be perfectly well save for their mutilation; not having seen their folks and received the welcome surely due to them, the prospect of remaining in hospital for a considerable additional period was extremely unpleasant, no matter how great the promised reward. As soon as we managed to secure furloughs of thirty or sixty days for these men, the situation changed entirely. It is not a part of military doctrine to send soldiers home to see their folks but it is most human for them to want to do it and once this fact was

properly appreciated, we had made a decided step forward. I mention this simply as one of the things which is required for making progress with the men. They require to be handled with tact, with judgment and with sympathy, but that sympathy must not be demonstrated by means of a facial expression or a pat on the back. The men are willing to be assisted to help themselves; this is the spirit of the American. He wishes his softer feelings taken into consideration but he does not want to be told about it.

In many cases the chief thing for which the soldier must be managed is a mental impairment which is not the result of physical damage, such as the loss of a member, but which is itself the primary cause of disablement. Such are the cases of so-called shell shock, with which I, fortunately, have nothing to do professionally; they do not come within the purview of my activities. These men require to be handled as a separate group. At the same time, the mental factor needs to be taken into consideration in many men with a physical disablement; and it would be an obvious error to consider either the physical or the psychic factor independently or to attack the one to the exclusion of the other. We are concerned with all of these things at this juncture, in so far as they influence the men's future activities.

In the case of the disabled soldier a decision of primary importance is whether it will be advisable for him to continue in his former occupation or whether he shall be prepared to engage in a new and different one because of the change made in his vocational possibilities by the character of his disablement. His own feelings with regard to this will vary according to his personal characteristics as well as his physical condition. Many a man comes back disabled in some way, having perhaps lost a hand, convinced in his own mind that he can no longer do the thing which he had before done, when this is not at all the case and when the thing which he had done before is still the very best thing for him to do in the future. For some men who come back with such a feeling, it is to prove a very salutary thing, because that which they had done before was by no means the best thing for them to do; some men of excellent mental endowment who had not the opportunity to make use of it in their work may now seize the chance which

is given them and thus convert misfortune into a blessing. As was remarked by a previous speaker, this war experience will give to many a man the chance to find his proper level; it will give him the opportunity to do something which he did not before have the chance to do, and this break in the continuity of his experience will present him with a brand-new opportunity.

It follows, therefore, that each man's case requires to be studied in an individual way. In accordance with what has been said, such study must comprise two distinct parts; the first is the curative part and has to do with putting him into the best possible physical condition. This is a medical problem, pure and simple. The second part is the preparation for future activity; this involves the restoration to industrial service in accordance with the text which has been assigned to me. It is a task in industrial education and training, but it is contingent upon the success which has attended the work of the hospital. My object in emphasizing the separate identity of these two kinds of effort in behalf of the disabled soldier is not to launch into a technical discussion regarding either of them, but rather to clear up a general misconception with respect to the curative workshop, or that which is known as occupational therapy. Even by some who are themselves engaged in the work, there is a tendency to confuse the two parts of the work; many continue to hold that the curative shop should have some definite connection with the future industrial activity of the men, whereas this is not the case. The program of the curative shop should be formed solely with a view to assisting the work of physical restoration; the man who is set to work in the carpenter shop with plane or saw may be destined to teach school or to keep books. The shop is to provide for him the means of getting rid of stiffness of the fingers or wrist, of restoring motion to a disabled knee; its function is to furnish a place and mechanism by which instead of having to put him through a certain number of movements daily, which are bound to become tedious and uninteresting and finally very irksome, we are enabled to reach the same, or even a better result by achieving the same kind of movements through work of a productive character. The men's interest is thus aroused and the end is attained in a much more pleasant and attractive manner. By

the measure of this, it is sure to be more efficient. It has been found by experience, even before this war, that the effort to combine the curative program with the educational is very apt to result in inefficiency for both and this confusion of effort had best be avoided. At the same time, there is no reason why we should not be making a very careful and scientific study of the vocational possibilities of the men, during the curative period. This should imply careful inquiry into both the mental and physical characteristics of the men and should take into account their own desires and ambitions. The curative period may be shaded off into the educational and may thus furnish a period of trial of the utmost value to the man and to those who are seeking to guide him into the path which he may later tread with the greatest success. If such study be carefully and sensibly made, we come to some very interesting conclusions. We find men, for example, whose occupations have been largely physical but who are entitled by mental endowment to do much higher grade work than they have ever before done; we find men, on the other hand, who aspire to mental activity but who had better be doing work involving the use of their hands to a greater extent than has before been the case. All this means putting the man at the job for which he is best fitted and most of the wounded men are in hospital sufficiently long to make such careful investigations; this is true, at least, of the men with whom we are at present concerned, those who come into the Reconstruction Hospitals. Sometimes the man's own idea for future activity leads him astray and it is difficult to make him see it; here the tact of the educational officer comes into play. I know of one instance of a man who wished to become a typist and whom the educational officer considered manifestly unfitted for this work. Argument and persuasive eloquence were of no avail. Instead of insisting further the educational officer now changed his tactics and put the man at a typewriter, but he put him beside a man who was already proving to be very efficient at the work; it was not long before our friend asked to be given another job. Needless to say he was now given one at which he was more likely to succeed.

Even as the problem of industrial restoration divides itself into these two parts, the curative and the educational, so the government has provided two agencies with which to meet it.

The medical department of the army with its hospitals is equipped with curative workshops, for occupational therapy which is to be employed while the man is still a patient; the Federal Vocational Education Board is then charged with training the men for the new occupations for which they are best adapted and with maintaining them at public expense until they have been so trained as to be self-supporting in their new occupations; it is also the purpose to find suitable occupation for them as the occasion demands. We thus have a very comprehensive and commendable program on the part of the government, one which is deserving of great praise if it is effectively carried out. There seems to be every reason for believing that it will be. I should have this personal criticism to make of the plan as it exists; that there is an unnecessary and undesirable hiatus between the work of the hospitals as a part of the medical department of the army and the work of the Federal Vocational Education Board, in so far as the latter begins its activity on behalf of the disabled soldier only after his discharge and the army loses its control and opportunity for continuous observation of him at this same time. To my mind, the work of the Federal Board should go more deeply into the hospital period than is the case and the duty of studying the man from a vocational point of view should be charged to it, rather than to the medical department of the army; the work of the medical department of the army, on the other hand, should follow the soldier beyond the confines of the hospital. I feel that the sharp delimitation of the spheres of these two agencies is both undesirable and unnecessary.

There is another thought upon which I would dwell, for a moment and in conclusion. The result of all of this planning and effort in behalf of the crippled soldier should be a distinct addition to our social assets; we should be put in possession of a well tried mechanism by which the disabled industrial worker should be helped in a similar manner in time of peace. We have gone through a dreadful war experience. An exact account of the casualties which our army has sustained is not yet accessible but the figures are large. Approximately one hundred and twenty thousand wounded men, still requiring hospital care, are on the other side of the Atlantic waiting

to be brought back here for further treatment; not less than three thousand men have suffered amputations of consequence. We feel this keenly, for these are our own brethren and they have made great sacrifices in behalf of our common cause. So does the industrial worker, however, who is disabled at his peace-time job make a similar sacrifice. The number of our countrymen who have been disabled by war within the last fifty years will not compare in the least with the number whose working capacity has been destroyed or seriously impaired by peaceful industry within our borders during the same period. The case of these men does not appeal to us with the same force; we rightly place the sacrifice of patriotism very high. Surely we must recognize, however, that the well-being of the industrial workers of the nation is a matter of utmost concern from a viewpoint both economic and humanitarian as well. The disablements resulting from industrial casualties are astonishingly like those of war in their end results, however dissimilar they may be in cause; by this token, they call for the very same kind of agencies, looking toward the restoration of men to industrial and social usefulness and independence. Even more in the case of the industrial cripple than in that of the war cripple, however, the program of reconstructive helpfulness assumes a magnitude and economic importance which places it beyond the scope of private and individual enterprise; it does not assume a practical aspect, for this reason, until we view it as a function of society in organization, therefore of the government.

I wish to conclude, therefore, by expressing the hope that as the result of the great endeavor which the nation is making in behalf of its war mutilés, we shall see clearly our duty toward our industrial mutilés also and that we shall do it while the urge of patriotic endeavor is strong upon us, for this too is a high order of patriotism.

EFFECT OF WAR CONDITIONS ON NEGRO LABOR

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COMING as I do from life and work in the South for a number of years and having seen much of Negro life in northern centers, I count it no small privilege to have an opportunity to speak in the interest of the millions of struggling, aspiring Negro wage-earners who themselves have little means or opportunity of expressing their needs.

In speaking upon the "Effect of War Conditions on Negro Labor" the subject should be divided into three main parts: (1) The change in the relation of Negro wage-earners to white employers, North and South; (2) the change in the relation of Negro wage-earners to white wage-earners and (3) the change in the Negro himself.

To discuss first the change in the relation of the Negro wage-earner to white employers, the point divides itself into two parts: namely, the change in relation to employers in the North and the change in relation to employers in the South.

Preceding the war period, Northern employers in industries, on railroads and in mines had very little contact or experience with Negro labor. With few exceptions, it might be said that Northern industrial employers as a whole had almost no relations with Negro labor. The experience, therefore, of these employers during the war was largely experimental and with results varying according to the wisdom of their methods.

To illustrate: During the first stages of the migration of Negroes to the North in the years 1915 and 1916, one railroad system went indiscriminately into the wholesale transportation of thousands of Negro laborers to work alone its lines. The result was not satisfactory because many of those transported had little or no interest except to secure free transportation North. In contrast to this, another railroad system, because of careful selection, had satisfactory experience in retaining for a considerable period more than three-fourths of the men they brought from the South.

Again, a clothing manufacturer in Detroit, partly as a philanthropic enterprise and partly as a possible profitable business venture, opened a factory and carried through to a successful conclusion an experiment of using Negro women and girls in garment making. He told me that his greatest difficulty was the timidity of the women and their lack of belief that they could gain the facility necessary to earn as large a weekly wage as that drawn by white workers operating power machines. But after one or two of the Negro girls had succeeded in earning such wages for one week, the hardest difficulty of the experiment was removed. Some publicity about this experiment brought inquiry from other clothing manufacturers. The result was that additional openings were made for Negro women in garment trades in Detroit and Chicago.

To deal with such problems in the mobilization of Negro wage-earners for winning the war, the Department of Labor formed Negro Workers' Advisory Committee in ten states. These committees by states, counties and cities are made up of representatives of Negro wage-earners, of white employers and, wherever possible, of white wage-earners. These committees have served as connecting links between employers and many organizations such as churches, lodges, women's clubs and betterment agencies through which Negro workers are influenced. Thus these committees helped to bring employers and white workers into such touch with Negro workers that all sides received satisfactory impressions during the first steps of introducing Negroes into industrial plants. In a number of cases in Ohio, Illinois, Michigan and New Jersey the facts about the success of employing Negro workers along several lines, especially the employment of Negro women, have been brought favorably to the attention of employers who had heretofore given no consideration to the matter. These illustrations indicate the fact that these first experiences of Northern employers with Negro labor were largely experimental. In a number of cases they frankly said they did not desire to have the Negro, but were taking him under the pressure of extreme war-labor needs.

But, let me emphasize that wherever as in Detroit, in Chicago, in Cleveland and in other places, there has been intelligent guidance so that the first experience of the employer

has been satisfactory to him and wherever there has been intelligent guidance for Negro workers, the experiment has usually been successful. Northern employers have testified that they have received a favorable impression of the capacity of Negroes, of their readiness to learn, and of their responsiveness to good wages and fair treatment.

A number of private welfare agencies have been of great service in this connection both to employers and to the Negro newcomers to Northern industrial centers. Without such intelligent guidance, employers have given up as a hopeless attempt their experiment of using Negro labor.

Taking next the change in the Negro's relation to employers in the South, perhaps the most far-reaching effect of the war conditions has been the decided change in the estimate placed upon the Negro as a factor in the productive life of the South. Preceding the war and the migration north there was such a surplus of Negro workers in many localities that when one worker dropped out or departed it was an easy matter to secure another to fill his place. After the migration north had developed and after there was a considerable increase in war demands for the building of cantonments and munitions plants in the South, a shortage of labor followed inevitably. Because of this shortage, there arose a revaluation of Negro labor. The Southern employer began to attach a new importance to the Negro wage-earner.

In the second place, while in some localities attempts were made to use compulsory measures to force workers to stick to their tasks, in a majority of localities the larger view of persuasion and better treatment has prevailed. The result is that such reasonable measures as increase of wages, the improvement of working conditions and the enlargement of educational and other community facilities have gained headway. Thoughtful representatives of both races have met in many localities to discuss their problems. In these ways better understanding, greater contentment and increased production on the part of Negro workers have been promoted. Public opinion as expressed in the white public press has been more favorable toward the Negro, and the desire for meting out justice to him has found increased expression. May I again venture to refer to the special work of the Department of

Labor through its Negro Workers' Advisory Committees and through its state supervisors of Negro Economics appointed by the Department? In Florida, in Mississippi, in Georgia in North Carolina and in Virginia these committees, made up of representative Negro citizens and representative white citizens, together with these supervisors, who are Negroes of ability, have been large factors in securing conferences of the races and frank discussion of local labor problems from the thinking people of both groups. In this way, more amicable adjustment of working and living conditions in the South is being promoted. Similar committees and officials have been appointed in five northern states.

It should be emphasized, that although these efforts to adjust relations of white employers and Negro wage-earners in the South during the unusual war conditions have been largely experimental, the experiment has been successful beyond the most sanguine expectations. The experiment, North and South, has established beyond question the practical value of the plan by which representatives of Negro wage-earners meet representatives of white employers in committees and conferences. It has demonstrated that such committees and conferences can achieve substantial results in adjusting the local Negro labor problems, which changing conditions and relations have produced.

Let us turn, now, to the effect of war conditions on Negro labor through the gradually changing attitude of white wage-earners. This part of the question is largely to the forefront in the North. In many of the war industries, there was such a demand for labor, both North and South, that large numbers of white workmen passed to the higher-paid occupation. As a consequence, Negroes were freely admitted to many of the occupations formerly monopolized by white workers and from which Negroes were previously excluded. With the demand for labor so much greater than the supply, the fear of white workmen that Negroes would be their competitors at a lower wage was greatly lessened in many semi-skilled and skilled occupations.

It may be well to remember that this danger of paying Negroes lower wages exists not because Negroes want lower wages than other workers but because, as in the case of women

workers, there is a prevalent idea that Negro wage-earners should be paid less than white wage-earners for the same work. We have actually had governmental wage-fixing authorities to act upon this idea.

Those who accept this notion seem to overlook the fact that the Negro buys his bread, butter and beefsteak in the same market as other purchasers; that investigations have shown that he pays higher rent for similar houses, and that his clothing must be bought at current prices in about the same quantity as other workers. It would seem that the Negro is expected to produce from his dark skin some sort of alchemy which will transmute smaller pay than white workers receive into equal standards of food, shelter and clothing in spite of similar demands from grocer, landlord and clothier.

Some of the most striking evidence of the change in the attitude of white workmen is the growing recognition given Negro workmen by white labor unions. In many of the city centers where union organization is strong, the unions are opening their doors to Negro members. In such centers as Chicago and Cleveland Negroes are represented in labor locals and union councils. But there still remains considerable fear of competition in the future and this reacts in some occupations to keep up the hostility of white workers toward the Negro's entry into these fields. It is reasonable to conclude, however, that white wage-earners today look upon the entrance of Negroes into the higher grades of occupations with less opposition than existed before the war.

The contact in industry and in the community of the white and Negro working classes offers one of the most delicate and difficult problems of the changing order. It is here, also, that the experiment of the Department of Labor with its Negro Workers' Advisory Committees has pointed a significant way to secure the introduction of the Negro into industry by peaceful agreement and understanding of all whose interests are affected rather than by force and the confusion of misunderstanding. Already race disturbances in East St. Louis; Chester, Pa. and Philadelphia have called attention to the need of peaceful adjustment. The federal government as the best and most impartial agent may well come to the aid of citizens, white and black, in these local communities and help

adjust such racial labor problems before outbreaks occur rather than make investigations afterwards. Many private organizations such as were referred to a few minutes ago are eagerly doing their best. They are ready to join hands under government co-operation.

We come, now, to the third decided effect of war conditions upon Negro labor: namely, the effect upon the Negro himself. The first effect upon the Negro was to increase his mobility. Let me remind you that when the great war started not only did immigration from Europe practically cease, but thousands of the foreign born went home in response to the call of their countries' needs. Northern employers who had depended upon the immigrant for labor found their labor supply vanishing. At the same time their contracts for European war orders were increasing by leaps and bounds. The owners and operators of Northern mines, factories and railroads faced a serious labor shortage. They soon discovered an unworked labor supply in the Negroes of the South. Early in the spring of 1915, their agents began to comb the South seeking these workers.

Preceding the appearance of Northern labor agents in the South, floods and drouths, the spread of the boll weevil in the cotton states, the low price of cotton for several years preceding the war, lynchings and other racial friction, together with other unsatisfactory local conditions, had created economic and community situations that caused unusual restlessness in the Negro population. There was needed only the creation of such a labor vacuum in the North and the guiding hand of the labor agent to draw thousands of unskilled Negro workers, along with some of the skilled workers, into Northern industrial centers. It has been estimated that by January 1, 1918, between four hundred thousand and five hundred thousand Negroes had migrated north. The Department of Labor has now in the press a report on this migration. The larger part of the investigation was made by three Southern white men. And they attribute this movement to specific causes as outlined in this general statement just given.

This effect of war conditions on Negro labor not only increased its mobility by moving about a half million of Negroes from one section of the country to the other, but it also acceler-

ated the constant, slower migration to Northern centers, a movement which has been going on for more than a generation.

The change under war conditions did more than this. Not only did thousands move, but also there was created in the mind of Negro rural peasants and urban wage-earners a new consciousness of the fact that they have the liberty and the opportunity to move freely from place to place. The migration broke down much of their timidity. It gave the rank and file the belief that they could move to another part of the country and succeed in gaining a foothold in its industrial life and activity.

The effects of the war changes went even further. The mind of the masses of the Negro people received the impression that all kinds and types of work might at some time be open to them; that they need not be content with clinging to poorer paid occupations but might aspire to those requiring greater efficiency and affording larger pay. And here let me emphasize what a change in Negro life this means. In years past in New York and other cities Negro boys and girls dropped out of school in the lower grades because they repeatedly said there was no use in going any further, when a Negro could only get a menial job anyway and that they were already prepared for that. I sometimes surmise what the American public would do if in some way it could understand that North and South, on railroads, in factories, in erection of buildings and in government projects, thousands of workmen have been denied the fundamental opportunity of earning an honest living at jobs for which they were competent for no other reason than because they are Negroes. A prominent writer several years ago said Negroes could get any job under the sun. He overlooked the fact that today much of industry is carried on in the shade.

To sum up the point in a sentence, the migration of these thousands of Negro workers to the North and the consequent changes under war conditions brought consciously to their minds the fact that freedom for any one means liberty to move freely from place to place and opportunity to change his job when it is advantageous to do so.

In parenthesis, let me add that this new consciousness of liberty which is dawning upon the Negro people calls not only

for the best guidance their own leaders can give, but also for the sympathetic understanding of white Americans. Negroes are faced with the problem of walking the narrow path of liberty and of avoiding the precipice of license. To shake off the bondage of servility and to take on the restraints of civility is no easy task for any people.

Another effect of the war upon the Negro himself has been to open up a wider range of occupations, in the North especially. This might logically be discussed under the point of the relation of Negroes to white employers, but the result has been felt largely within the Negro group. Hence it is placed in this part of the discussion. This change has been more far-reaching than the most hopeful might have expected for the next twenty years.

In 1910 there were 5,192,535 Negroes of the nation gainfully employed. This was about one-half of the total Negro population. More than one-half of those gainfully employed were engaged in agriculture and nearly one-half of those in agriculture were only farm laborers. In manufacturing, in transportation and in trade occupations the large majority of Negroes, male and female, previous to the war had been given opportunity to work principally as laborers, porters and the like—the poorer paid places. Furthermore, more than one-fifth of the Negroes gainfully employed in 1910 were classified as engaged directly in domestic and personal service. In 1908-9 I made some studies of the Negro at work in New York and other northern cities. At that time probably more than 85 per cent of Negro women gainfully employed in northern centers and about 75 per cent of Negro men were engaged in domestic and personal services.

War conditions have made some changes. Just how great the changes have been we cannot tell before the census of 1920. But in some northern cities, the changes have been significant. In Detroit, Michigan, in 1914, for example, there were probably not a thousand Negroes in all the factories in that great automobile center. The latest report from Detroit about two months ago stated that probably between twelve and fifteen thousand are now engaged in the automobile industries of that city alone. In the steel districts of Pittsburgh, within twelve months, the number of Negro workers in the various plants

increased in some cases 35 per cent and in others as high as 100 per cent. I am informed that the General Electric Company of Pittsburgh, which had not employed Negroes before 1914, now employs scores of both men and women. In New York, where ten years ago it was quite difficult to get a Negro girl admitted into one of the cheaper branches of the garment trades, now scores of Negro women are daily employed and the manufacturers are advertising for more.

With these enlargements in the field of occupation has come increased pay. Since many immigrant women have been drawn into industry, even domestic and personal service is now offering Negro women wages that permit a high standard of living. In Pittsburgh today wages of Negro women in domestic and personal service are ranging from seven and eight dollars a week with room and board to fifty dollars a month with room and board; three dollars a day are being paid for day's work with carfare and one or two meals in the bargain.

With an opportunity to engage in the higher-paid occupations and with the accompanying higher wages, there have come a larger purchasing power and desire for more of the comforts and conveniences of life. They are, I regret to say, having great difficulty in most northern cities either to rent or to buy good houses in which to live. They are forced into congested and often undesirable neighborhoods. But they are struggling for better conditions. Of course, sometimes the increased earnings have gone into unwise expenditures. It can be said with assurance, however, that the effect of the war upon the Negro worker himself was to create in him new aspirations for higher standards of living. Even the instance of unwise expenditures may be regarded in that light. The writer has seen numbers of Negroes who had moved from one and two room cabins of the far South within a few short months seeking modern houses with all the conveniences of sewerage, electric lights and gas ranges. One observer in a New Jersey community said, after a year's observation of these newcomers, that at first they were ungainly, ill-clad and went about the streets as "strangers in a strange land." In a few months, these same newcomers had taken on many of the standards of dress and deportment of the community. The adaptation had been very much more rapid than that of the foreign-born.

They bore themselves as if they had been living in that community all their natural lives.

A number of employers in industries who have taken on these Negro workers have pointed out the need of leading them away from their characteristic timidity and fear on entering a new occupation. With the passing of this timidity and fear has come a desire to be taught and a spirit of aggressiveness which has called for guidance. In this connection, namely, teaching the Negro worker efficiency and thrift, and the necessity of making good on the job after he has been helped to get it, the Department of Labor has rendered large service during the war period by means of its special representatives in ten states and the connection of its Negro Workers' Advisory Committees with many organizations and agencies working among Negroes.

This war-time experience of the Negro with the sudden movement of large numbers from the South to the North has resulted in a remarkable consensus of opinion among Negroes, North and South, with reference to certain fundamental things they want. There has developed among them a growing consciousness of the desire for some of the real, substantial things of American democracy and they are reaching out after them. During the past two years, the speaker has visited many localities North and South and has taken special pains to talk with all classes of Negro workers both in industry and agriculture. This canvass of opinion has been among Negroes working on railroads, in mines, in factories; hotel porters, hackmen, farmers, plantation tenants, farm hands, tradesmen, business men, ministers, doctors, lawyers and housewives. Efforts were made to learn from these people what the essential things are which the great majority of them consider they should have as the outcome of this war.

The results of this inquiry may be summarized under five headings: First, Negroes desire a fair chance to get work and to hold work on the same conditions and with the same pay as other workers. Repeatedly, the appeal to them to be ready to give 100 per cent work in return for what they ask just as other workers are expected to do has met with most hearty response. When such a point has been mentioned before public audiences, it has been met with loud applause. And

following such responses the reply has always come back that they wish to get their jobs, to hold their jobs and to be paid for their work uncursed by color.

Second, I have found a wide-spread desire for education of all kinds. Negroes say they want more and better training that they may develop their capacity for greater efficiency which will enable them to take a larger part in the great world's work. When they are blamed for being inefficient, they point with reason to the lack of educational opportunity which keeps them from the necessary training in efficiency. They ask why they should be blamed for not having that which they have never had a chance to secure. And there is a general belief among Negroes that the larger part of this educational opportunity should be furnished by public funds, and especially by the federal government.

In the third place, there is a united demand of workers for the removal of race discriminations in public courts, public conveyances and for provision in city and country for the same facilities of community improvement for them as for others. There is a consensus of opinion among Negro workers wherever I meet them that they want good houses, well-paved streets, sanitary arrangements, and the other community facilities which every modern community now considers essential to wholesome living.

The fourth thing so generally demanded by Negro workers can probably be best expressed in the words of an unlettered southern Negro farmer to a large audience of Negroes in conference with some of the representative white citizens of their county. He said to the presiding officer, a prominent business man, "and, Sir, we wants to help say who governs us." The presiding officer replied by saying that the liberal-minded white men of that state proposed to see that this desire was satisfied. Negroes want representation in the councils where their interests are being considered and decided. They seek this as a part of the democracy for which they have shared their possessions, their labor and their blood. Negro sons and brothers and fathers have died by the side of white sons and brothers and fathers. The Negro people feel that the democracy for which these men suffered and died should be shared by all.

In the fifth place, gradually and as yet in the twilight, there is rising in the consciousness of Negroes, the belief that as men and women they are ends in themselves along with other people for whose self-development and happiness they should work and live. For more than ten generations, black men and women have known only the idea that they were born and trained to be workers and servants for others. Their minds are shedding this notion and they are coming to believe in themselves as men and women to whom the blessings of the world are to come and by whom the enjoyment of these blessings are to be shared.

I have tried to present some of the effects of war conditions on Negro labor, namely: the change in the relation of Negro workers to white employers, North and South; the change in their relation to white workmen and the change in the Negro himself. If now you ask: What of the future during reconstruction and the prosperity of peace which we all hope will follow? Let me say first that in my humble opinion this situation should no longer be left as an emergency matter without a constructive national policy and program of work.

These changes under war conditions have shown that Negro labor is a matter of national interest affecting white employers, white employees, and Negro workers, and through them the whole American people; that employers want to buy the services of these workers and are willing to offer wages and conditions which will allow a larger life; that Negro workers have been awakened to seek these larger opportunities in return for their labor and that the white workers do not wish that the introduction of the Negro shall jeopardize their welfare. We have then, in this concrete, material problem a matter of common interest to all, which may serve as a basis for a constructive policy of race relations. Some definite steps need to be made in line with a resolution framed and presented at a reconstruction conference in New York city last week. The resolution reads as follows: "That every program for national and community reconstruction shall adequately and consciously include provision for our Negro fellow citizens and for their co-operation therein."

And what are some of the Negro labor problems of reconstruction and peace times? The following points may be mentioned:

1. The thousands of Negro workers in war industries who will now be shifted to peace-time industries, along with other workers, need special attention the same as during the period when they were being shifted into war industries.
2. Probably between 400,000 and 500,000 workers have migrated from the South to northern communities. The potential race friction and difficulties of adjustment, both with white wage-earners and in industrial communities, where they must find community life with the white residents, are legitimate concerns of the nation. Other migrants will probably come within a few years.
3. There will be special problems connected with the adjustment of colored women in industry and probably in domestic and personal service.
4. The problems of creating increased efficiency and thrift among Negro workers will be even greater than during the war.
5. In the South the common interest of the white employer who wants to buy the services which the Negro wage-earner has to sell will make the adjustment of the labor situation one of the most far-reaching factors in bringing about just and amicable race relations. These conditions are acute, growing out of the present unsettled conditions following migration and war restlessness of the two races.
6. The adjustment of the farm labor situation in the South is very largely a Negro labor question.
7. The problems of demobilization of the thousands of Negro soldiers will probably call for more tact and judgment than were needed during the period when they were being drafted out of production into the army. In fact, it is not an exaggeration to say that the return of the Negro soldier to civil life is one of the most delicate and difficult questions confronting the Nation, north and south.
8. The question of living conditions of Negro wage-earners must receive more attention during the period of peace than it could receive during the war period.
9. The problem, therefore, of finding ways by means of which there may be counsel and co-operation between white employers, white fellow employees and Negro wage-earners will probably be more critical with the coming of peace than during the period of the war.

Furthermore, this adjustment of Negro workers, north and south, during war-time experiences shows clearly that co-operative committees and conferences of white employers, and white and Negro workers have brought practical and constructive results in meeting such problems. White employers and white workmen have looked with approval upon the plan of meeting representatives of Negroes at the council table. Several private organizations such as were mentioned a few minutes ago have demonstrated over a longer period the value of such racial co-operation.

Finally, unlike many other problems brought to the surface by war conditions, this racial labor situation probably can best be guided toward a constructive policy through the help of the federal government acting as a central, co-ordinating agency for the private organizations and interests involved. Repeatedly, I have found white employers and white workmen willing to meet Negro representatives under Department of Labor supervision, when they would not consider it otherwise. Negroes have comparatively few unions or employers' organizations. They have felt the power of both organized capital and organized labor. Negroes have had to deal with both in an effort to secure an American's chance to work.

Yesterday, when I read the resolutions of the councillors of the Chamber of Commerce of the United States on regularity of employment, the right of workers to organize, a minimum wage and their other newly adopted principles of industrial democracy, immediately there arose in my mind the question, how far Negro workers will share these benefits just as other workers do. The announcement of the new policy of the captains of industry and commerce gave new strength to my conviction that there should be some governmental guidance of the private forces toward a constructive policy dealing with the reconstruction and peace problems growing out of the effect of war conditions upon Negro labor.

THE U. S. EMPLOYMENT SERVICE IN RELATION TO THE DEMOBILIZATION OF LABOR

NATHAN A. SMYTH

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THE employment service of the United States stands with others, as it were, at a Chateau-Thierry against the danger of a threatened incursion of Bolshevism which follows upon unemployment. We stand there frankly needing help. We stand there, happily I can say, with the present assurance of help being given, and the further assurance that all the help is going to be given that may be needed.

Demobilization has commenced with a rush. We were not prepared for the end of the war. Since we have come to the end of it we have started to get rid of our contracts, and to discharge the soldiers with the utmost possible rapidity. A week or two ago I viewed the situation with very grave apprehension. We were beginning to demobilize at the beginning of the winter season, at a time when there is less employment than usual, when jobs on the farms are few, when outdoor work cannot be done, and at a time when of necessity there is great industrial confusion and difficulty in getting ordinary normal life re-established. Within the last few weeks, I might almost say within the last few days, in the hurry of developing work in Washington, there have developed tendencies and trends which bring me before you to-day with a spirit not of pessimism, but of great optimism, a feeling of abounding confidence that the American people are going to meet this problem as they have met all other problems; and if, in what I have to say to you as to what is being done, what remains to be done, and wherein we think perhaps some of you can help, I mention certain dangers in the present situation, it is not from any spirit of pessimism, it is merely in the full confidence that we can meet any danger when we realize it and are prepared to meet it.

The day the armistice was signed a number of telegrams went out from the War Department cancelling contracts.

The industrial transformation began. The process of moving great hordes of men from war work to peace work was under way. On that same day, however, or on the next day, an order went out from the office of the Secretary of War that no cancellations of contracts were to be made effective without first taking the advice of and consulting with the War Industries Board and the Department of Labor. The Director of the Clearance Division of the United States Employment Service, representing the Department of Labor, has been devoting his whole time every day from that day to this, with the War Industries Board committees, and with the representatives of General Goethals' department, in going over the policies of cancellation, and studying their effect, and I am happy to say that every one of them—the army officers concerned, the War Industries Board and all—feel that the relationship of the cancellation of contracts to the labor situation is one of its most important aspects. General policies have been laid down, whereby it is possible for an industry to shift gradually from its war work to peace work, such as the industries which are engaged in making uniforms, and a great many others that will come to your minds, so that so far as possible the transition will be made gradually in order that if possible the forces of employees may not have to be discharged.

In other cases where there is no peace-time work which can be performed in the plant without great changes, such as in some of the manufacture of ammunition, the policy has been to shade off gradually, to cut down slowly, so that the laying off of men and women may take place without too great rapidity. There has been a very great urgency for prompt, rapid action. We were expending enormous sums of money in creating goods that are of no value in peace times, some of which are a positive menace in peace times, and of course it has been necessary that that expenditure should be curtailed just as rapidly as possible.

We have been watching with great care the effect of the industrial transition so far as it has taken place, and under the very wise policy which the army has adopted we feel happy to say that so far as we have been able to observe, up to the present moment, the industrial transition due to the cancellation of contracts bids fair to take place without serious or pro-

tracted unemployment. The only possibility of danger, as we see it, comes from the likelihood that the situation may be complicated by a too-rapid demobilization of the soldiers. That demobilization is taking place largely on the basis of military consideration. For reasons the adequacy of which I am in no position to discuss, or upon which I am in no position to form a judgment—the men are being turned out rapidly, as rapidly perhaps as physical conditions permit, on the basis of military units. A good many men are thus being discharged for whom there is not at the present moment any real need in industry. A vast number of other men are being held back in the units which are going to be discharged later, for whom there is immediate need, men who could step back today or tomorrow into positions in our industrial life where they would be of assistance in helping us to resume it rapidly. There has however been an opening wedge inserted. An order has been issued under which the individual soldier may be discharged on his own application because of sickness in his family, or because he wants to resume some position or occupation in which he is greatly needed. At the present time, in the view of the general staff, that is to be the exception rather than the rule. I personally am of the hope, as time goes on and the administrative details are more worked out, that that exception will become more and more the rule, that we may be able to say that those who are immediately needed will be released at once, and those for whom there is no immediate need will be held back to come along later with the later units.

The men are being discharged from the camps with no pay in advance, with a sum of money equal to three and a half cents a mile to their homes, with permission to buy a ticket anywhere. Many of them are boys who worked on the farms, for whom no positions on the farms are immediately available. Many of them are men who have engaged in outdoor construction work of some sort or other, for whom positions are not immediately available. Most of them, I believe, are going home, but many of them are going to drift to the cities. The danger which we face, due partly to the methods under which they are discharged, to the speed, and to the time of the year, and due partly to the instincts which led a body of

them to say to a man who was investigating what they were going to do when they got home, that they were going to sleep until ten o'clock every morning, is a certain initial reluctance to go to work. Already there are turning up in our cities stranded soldiers; they are "broke," they haven't any money, they are applying for civilian relief. The danger against which we have to guard, the danger against which I believe we can successfully guard if we take all the steps which are necessary, is that during the next three or four months, when we combine this rapid demobilization of industry with so rapid a demobilization of the soldiers, there will be a large number of workless, moneyless soldiers in our cities and larger towns.

The first thing to do about it, because that is the thing with which we are all concerned, is to try to help them find jobs, whether they go back to the home from which they came, or whether they turn up in the larger cities; and to be sure, they deserve every possible help that the nation or the community can give them in finding not only jobs, but finding the jobs for which they are best fitted. Many of them are changed into better men than they were when they went away, many of them are fitted for better jobs than they held, many of them will find in this period an opportunity to get out of a blind alley into a new and better line of activity. The boys who gave up their work without a moment's hesitation to go to fight for us deserve from us every opportunity and assistance in finding the kind of work in which they will be of the most value to themselves and to the nation.

To meet this situation the United States Employment Service is working along two distinct lines. We have in the first place a representative in every camp, working there with the co-operation of the commanding officers and other agencies, for disseminating such information as can there well be used as to positions and lines of work which are open for returning soldiers. We do not however anticipate that any very great amount of assistance can be given to the soldiers in the camps. They do not know very long ahead when they are going home, and you cannot place a man when it is perfectly indefinite as to when he is going to be able to take a place. By and large, they are not profoundly interested in getting a job, during

the excitement of getting away from camp. They want to get away and get back home, or to the "white lights," or some other place. We have to get in contact with them, so far as they need assistance, either at their homes or in the communities into which they move.

The U. S. Employment Service was reorganized in its present form as a great national agency in the first month of this year. It has however during the time since then so extended itself that it has a director in every state in the Union. It has scattered throughout the country some 750 offices, some of these offices being branch co-operating state and municipal employment-service offices. The extent of the work which those offices are able to perform is briefly indicated by the fact that since the first of January up to about the middle of November, or the first of November, they had directed to employment over 2,500,000 persons, about 87 per cent of them being men. In the first part of that period naturally the work was not as great as in the last part. During the last three or four weeks the records indicate that an average of about 145,000 persons a week were directed by the various offices throughout the United States to employment.

In addition to these offices the Employment Service has in 1585 communities throughout this country what are known as community labor boards, composed of three men, one of them representing employers, one representing labor, and one representing the national or public interest as a representative of the Employment Service. All of our offices and all of our boards have taken up the question of trying to assist in providing work for the returned soldiers—but there are limitations on what we can do unassisted. We do not reach into every community, but the returned soldier and his problem do. We find also that there are throughout all the country a vast number of independent private organizations, each one of them eager to do everything it possibly can to help the boy who is coming back from the front. The churches, the lodges, the labor unions, organizations of all sorts, are planning and have been making plans to undertake this work. That this work should be done without system or co-operation or co-ordination would be most unfortunate. If the Methodist church in a town, for example, should undertake to find a job

for every member of that church who comes back, as it ought to do and as it should be encouraged to do, it might so happen, for example, that the man who comes back is a trained pipe fitter, and it might so happen that there was no Methodist in town who wanted a pipe fitter, but some benighted Presbyterian might want one! The pipe fitter should not find himself unable to get the job for which he is fitted, just because the particular organization which he goes to has only a limited picture of the field of opportunities available in the community. All the opportunities in the community should be pooled and made available so that they can be tapped by any private agency which wants to make them available.

With that in mind the United States Employment Service, as soon as the policy of how the soldier was to be demobilized was determined and announced, set out to create in every large town and city of the country, so far as it was able to, a central bureau for returning soldiers and sailors, and also for war workers—because the war worker is going to have a little difficulty in competition with the man in khaki in getting a job, although it may be the need of supporting a family that kept him in civil life and sent him to work in a munition plant. He comes back with the stigma of having made high wages and not having gone to the front, and yet he may have been equally of service to the people with the soldier. We enlisted the organization of the community councils of national defense in a plan approved by the secretaries of the great departments of the navy and army, and they responded in a body. They have major councils of defense in some 4000 communities, and they subdivided it so that there are over 180,000 of their bodies, all more or less under central direction. They have all been instructed to unite with the community labor boards in calling a meeting of representative organizations to organize these central bureaus for returned soldiers and sailors. They are all to be hitched on to what we call the "clearance" machinery of the United States Employment Service—that machinery which enables a shortage of labor in one city or state to be put in touch with a surplus of labor in some other city or state, so that the resources not only of the local community but of the state, and in so far as possible of the nation, are all made available to enable the re-

turned solidier to find the position which he is best fitted to fill. Not only have we been assured of that co-operation in the work which is now under way, but we have within the last four or five days received promises of assistance and have formed a central co-operating committee which is composed of representatives of various divisions of the army which are concerned in demobilization, of the navy, of the Department of Agriculture, of the Council of National Defense, of the Women's Committee of the Council of National Defense, of the Federal Board of Vocational Education, of the American Council of Education, the American Federation of Labor, the American Red Cross, the Y. M. C. A., the National Catholic War Council, including the Knights of Columbus, the Jewish Welfare Board, the Young Women's Christian Association, the General War Time Commission of Churches, the War Camp Community Service and the Salvation Army. So we have organizations united in Washington in an endeavor through the central co-operating committee to bring about co-operation in all the communities, of the representative bodies of practically all the churches and of the great national organizations concerned with the problems of finding employment for the soldiers. They are very hopeful that through this machinery we shall have a means which will make available the whole resources in jobs of the community to which the soldier expects to go. It will not be 100 per cent perfect. Its perfection in any community will depend on the organizing ability in that community; but we can count, I think, with the utmost confidence, that they will be organized effectively and well in most of the communities in this country.

Now, by and large, the trouble with what we are doing is this: We are dealing as it were with symptoms and not with causes. We are not creating jobs, we are only helping to put the soldier in touch with the job. If there is a shortage of jobs, a surplus of labor during the next three or four months, none of this machinery will meet that situation; and it is only during the next three or four months that we feel there is danger of an actual shortage of positions. But even against that danger there are certain remedial steps within our power. Some remedies are not yet available. The use of reclaimed land cannot be begun at once. Work on the

farms is not going to open up until spring. Public works cannot be begun in the cold months. Building and a lot of outdoor work cannot start up now as it can in the spring. The burden is thrown very largely, so far as the large employers of labor are concerned, upon the manufacturers. We may stimulate all the other industries as much as we can, and we should; but nevertheless upon the manufacturers rests the burden. They are hesitant, many of them, from causes which I think much can be done to correct. They are hesitant partly because of uncertainty as to taxation, and there Congress, by expeditious action, can bring about a remedy. They are hesitant because of uncertainties as to credit facilities, and the high cost of money, and there the banks, by courageous and concerted action can help to bring about a remedy. They are uncertain and hesitant, many of them, because they feel that the present high prices of labor and material will be reduced in the future, and that they can produce at lower prices both of labor and of material. As to the prices of material I have no comment to make. They vary according to the material. To some considerable extent they are based on labor, and the belief that the prices of labor and material are going to come down is somewhat fundamentally based on the theory that there is going to be a surplus of labor four or five months from now. That theory I believe is based on a failure to take into account certain fundamental facts. I am speaking now not of the next three or four months, but what is going to happen possibly five or six months from now. During the four years from August 1, 1910, to August 1, 1914, 2,862,624 males over 16 years of age came into this country by immigration. During the corresponding four years from August 1, 1914, to August 1, 1918, 581,339 male immigrants came in. That is a deficit during that period of four years of 2,281,000. During that same period, although I have not the figures, there was I believe a considerable increase of emigration, of men going home to join the fighting forces. We have to face, during the next year, the probability that there will be an average from now on through the year of over a million men in the army. Half a million men have been absorbed into the new industry of shipbuilding, largely skilled workers. We find no traces of approaching

extensive immigration into this country. We find on the contrary, through some of our agents, a tendency which others have investigated and pointed out, for large numbers of foreigners living in Europe to want to go home as soon as they can. "Go west, young man," has now almost become "Men, go back to Europe." I see therefore no foundation for the belief that there is going to be any surplus of labor in this country after the next four or five months. Why then wait in starting industry for anything of that sort to happen? I think the manufacturers, especially those who have been making large profits during this war, owe it to the nation to set their wheels going just as fast as they can, even if they do take some chance of manufacturing at a slight loss.

There is just one more thing we can do. Labor must appreciate the hesitancy of capital. The employer must realize that if high wages go down before the high cost of living goes down, it means great suffering to the laborer. Both sides must refuse in these reconstruction days, as they refused during the war days, to take advantage of the weakness of the other. One and all, we have to understand each other's problems. Thus, going ahead in mutual understanding and mutual determination, perhaps we can put over this great job of reconstruction even more successfully than we did that of entering and participating in the war.

THE RATE OF DEMOBILIZATION AND THE LABOR MARKET

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ONE can hardly discuss the rate of demobilization and its influence upon the labor market at just this moment without some sense of embarrassment. Were it the first of November, I might content myself with an avowedly speculative analysis of the problem, assured that facts were not available to belie my prophecies. Were the occasion a year hence, I might garner the record of actual incidents and laugh at the surmises of prediction. But just now events have come upon us to disturb the serenity of prophecy, but not in sufficient volume to constitute history. One who speaks now must essay the task of making a contribution alike to Isaiah and to Chronicles. He must accept the chance of being found unworthy of the company of the prophets without the surety of entrance into the craft of the historians. However, the venture must be dared, and since the aftermath of war is still young, I must lean the more heavily upon prophecy.

The problem of the rate of demobilization has no primary concern with an elevation of the rate of wages, an establishment of better living and working conditions, an inauguration of an era of good-will between employers and employees, or the foundation of an industrial New Jerusalem. It is a simple and humble problem of the mere mechanics of industrial organization. It has to do directly with the very prosaic matter of the rate at which demobilization is to be effected, and the relation which this bears to the capacity of the industrial system to absorb men. And yet, since the mechanical means of life are the servants of immaterial things, a proper solution of this problem is a necessary means for obtaining the larger desires and realizing the more human values which are the objects of every social program.

The problem of the rate of demobilization, so far as it af-

fects the labor market, may be stated in the form of a choice and two alternatives. We would, all of us, prefer to have the process go on in such a way as to effect an equality between the rate at which men are discharged from the army and from war industries and the rate at which they can be reabsorbed into ordinary industry. This solution obviates, on the one hand, the waste of productive equipment which lacks the necessary complement of men and, on the other, the loss of the labor of men who have no devices with which to engage in industry. One alternative is that positions will be opened to the men faster than they will be discharged from service. If matters fall out in this wise, which in my opinion is not at all probable, I at least shall regard it as no occasion for anxiety. As a representative of the Labor Department I shall insist that if grief is my proper lot, I be allowed to display the emotion vicariously. The other, and the more probable alternative, is that labor will come to market faster than it can find employment. The dangers inherent in this event are imminent and serious. They must be appreciated to be avoided, and appreciation demands an explicit statement of their nature and magnitude.

If demobilization is effected at a rate faster than industry can be made to accommodate the discharged, the first and most immediate result will be a large volume of unemployment. If this comes, it will be a matter of concern, not to labor alone, but to every group in society; for unemployment brings in its train dangers and distress which ramify to the utmost confines of the industrial system. If unemployment builds up a reserve army of labor, the latter will tend both to lower wages and to break down labor standards. No matter how valiantly the public tries to hold up living and working conditions, the inevitable competition of many workers for few jobs will tend to lower them. It goes without saying that many employers will do their best to prevent an undermining of the laborer's position. But, when markets begin to fade and prices to decline, some there are who will be only too glad to take advantage of necessity and increase their margins of safety by lowering costs. The compulsion, which the producer who is upon the ragged edge and is willing to sacrifice standards to personal survival can exercise upon his competitors, is by no means a tradition of the past.

The second result of a large volume of unemployment will be the disorganization of the purchasing power of the masses. Between the demand of the select few and that of the rank and file of labor there is this difference. The former requires articles whose appeal is to whim and fancy; the latter those which satisfy grim necessity. The demand of the classes is a specialized and capricious one, flitting from commodity to commodity; that of the masses a staple one to be ministered unto by standardized goods. Under ordinary conditions the amount of the purchasing power of society would be the same whether it was concentrated in the power of the few or diffused among the many. There would be only this difference, that in the first instance the industrial system would serve a more irregular demand and be more prone to disorganization and waste through misdirected production, while in the second it would yield a steadier flow of goods to meet more certain requirements.

But the affair is not one of the distribution of purchasing power; nor are these ordinary times. Unemployment will come, if come it must, because the industrial system is not flexible enough immediately to adapt itself to the conditions of peace. It will result, not in transferring to the few the purchasing power of the unemployed, but in its loss altogether because of idleness of the industrial processes which the idle might further. The unemployed cannot buy; therefore producers cannot sell to them. This will cut into profits, blunt the motive upon which business activity depends, and discourage employers from going ahead with production. A necessary consequence will be enforced idleness, in whole or in part, by other workers. Thus, again the purchasing power of another section of the laboring class is disorganized, and again the vicious circle will run its merry round. In considering the dangers in this emergency one must not forget that the producer's ultimate market is the purchasing power of employees in other establishments. Whatever one's interest may be in keeping the wages of his own men down, if he is engaged in quantity production, he is concerned that other employers keep their laborers fully occupied and their wages at a high level. It is manifest that a situation such as this holds at least the seeds of a depression. How far disorganization will actually go, and how close we will come to industrial collapse, only time will tell.

In view of these dangers the general solution of the problem with which we are concerned is obvious. It is to see to it that the rate of demobilization and the rate at which industry can be made to reabsorb men are made as nearly equal as possible. It may perchance be, though substantial grounds for the belief are lacking, that industry is on the eve of tremendous expansion and that it will quickly swallow the surplus of men which the army and war industry offer, and cry aloud for more. But if things go wrong they will be seriously awry and since what is done cannot be undone by the magic of wishing, it seems better to hedge in the industrial system against the dangers of disorganization. It is the part of wisdom to take no chances. This requires the use of two principles which together make a policy of demobilization. The first is to arrest the rate of flow out of the army and war industry. The second is to speed the return of industry to a peace-time footing and quicken its capacity to absorb labor.

The first of these, a check upon the discharge of labor, involves a conscious control of the whole flow into the labor market. This larger current is made up of five streams which differ one from the other in their susceptibility to outward influence. They are: (1) the men under arms overseas; (2) the men under arms in this country; (3) the workers in war industries; (4) prospective immigrants; and (5) young people bringing their labor to market for the first time.

The rate of discharge of the first of these groups, men under arms overseas, is under a single authoritative control. It can be made responsive to the industrial needs of the country. Already its home-coming is being checked by the improvidence of man and the "act of God." Our meagre shipping facilities were our mortification while the war was going on, since they were the factor which effectually limited our active participation in the struggle. Now they bid fair to be our salvation during the troublesome transition to peace. Our physical incapacity to carry men home as fast as they can be released from military service may do much to atone for a lack of foresight in official action at Washington. Besides, their discharge may be stayed either abroad or in this country until the industrial system is able to reabsorb them.

The rate of discharge of men in the second group, composed

of those under arms in the United States, is subject to almost complete control. The decision upon which depends the speed with which they will be turned loose in the world rests upon two conflicting values. The one which impels haste is the desire to avoid the costs which attend their retention under arms and the waste of their labor while maintained in idleness. It is supplemented by a realization of the difficulties of maintaining discipline when the supreme objective which underlies morale is gone. The one which urges delay is the fear of flooding the labor market and causing unemployment which may endanger industrial morale and find expression in the little understood but much feared thing called "bolshevism."

The control of the rate of discharge of workers in war industries is much less complete. So far as they can be held back, it must be through the indirect means of a carefully formulated policy for the cancellation of war contracts. If contracts are to be canceled as rapidly as the departments affected can be made to get rid of them, labor will be thrown rapidly upon the market. If their terminations are delayed in terms of a policy which takes due account of rates and of priorities, the flood of labor may be dammed. The matter is of grave concern; for the greatest danger with which we are now confronted is that munitions workers will be thrown upon the market in a mass to break down standards and to disorganize it upon the eve of the return of the soldiers and their quest for jobs. Fortunately, printing presses do not respond with too great alacrity to the demand of the government for forms; the processes of state are decorous; army officers are over-fond of the punctilios of ritual; and jaded human nature is not always over-zealous for toil. This form is delayed; that person wishes cancellations to go by mail rather than by telegraph; this official can not work without his half-day off for golf; and that dignitary must engage in the solemnity of conference before he can attach his necessary signature. So it comes to pass that personal inertia, aesthetic taste, the slow grinding of the wheels, sheer inefficiency, and the kindly smile of providence make the process of cancellation far more intelligent than officialdom had intended.

The fourth and fifth of these streams are of no great importance. Immigration is already checked by the shipping situ-

ation. There is no reason why it should not be stopped altogether, if it proves dangerous, until the fear of a glut of the labor market has been removed. Young people in large numbers are not likely to seek employment for the first time during the next few months. Many who would now be seeking their first jobs are in the army; most of the others have been drawn into industry by the dearth of labor and the high wages which the war has brought. Thus it is that of the five streams into the labor market, two are subject to the absolute control of a single authority, a third is subject to indirect control by the same authority, and the remaining two are for the time almost completely arrested. The rate of flow into the labor market can be checked to respond to the ability of industry to absorb men. If it is not done, it will not be because of a lack of authority.

If the government should do nothing more than merely arrest demobilization, all the men in the army and war industries might be restored to ordinary pursuits without friction. But a policy which aimed only at supplying man-power to an industrial system left to effect its own accommodation to new conditions would be long drawn out. It would quite likely find expression in doling out handfuls of men here and there as needed. Its weary course might run through a series of years. Under it the man-power held back would go to waste. Men would become seriously disgruntled over having to remain in the army. To have a fair prospect of success, such a policy must be associated with another which aims to hasten the return of industry to its ordinary channel.

This accommodation of industry to the new conditions of peace can be hastened by many things which the government can do. There is no time to discuss them here in detail; they must be passed in the briefest review. First, and most essential, it can gather and organize information about the extent and localization of the resumption of industry and the employment which it may be expected to offer. Second, a proper scheme of priorities in the discharge of men can be made of great value. To cite a single example, managers of independent enterprises should be released early, for their planning will find a visible result in jobs for others later on. Third, the cancellation of war contracts can be premised, among other

natives with the contingencies upon which each depends. If one is disposed to object to my terminology and call the account "prophecy," I shall interpose no objection. However much of truth or falsity this analysis contains, it is a mere outline that lacks the fullness and detail of reality. That can come only later. But as the weeks go by new elements will display themselves in a rapidly shifting scene. The situation will come to hold more of promise or of dread. Fact will follow in the wake of analysis or prediction. History will show wherein we have erred in conceiving of and attacking this problem. We are now about to see whether in the wake of war there comes dearth and industrial strife or peace and prosperity.

[330]

DISCUSSION ON THE DEMOBILIZATION OF LABOR IN WAR INDUSTRIES AND IN MILITARY SERVICE

W. H. WEBSTER, President, Rathbone, Sard & Co., Albany, N. Y.: During the past two weeks I have discussed with various agencies of the government the subject of the demobilization of war industries and military service. I was assured in the first place that as far as the demobilization of war industries was concerned it was a matter for the War Policies Board, and the Labor Board, and that the American Federation of Labor was working hand in hand with them. I discussed the subject with the American Federation of Labor, members of the War Policies Board and others, and I was assured beyond the shadow of a doubt that as far as the machinery for helping a man to find a job was concerned, it was perfect. The only thing that evidently had not been taken into account was to produce the job for the man that was out of employment. Finally it came to the point of passing it back to the manufacturers of the country. There is no doubt whatever that if the manufacturers will take upon themselves the burden of reconstruction, will invest their capital without any government control or help, that if they are justified in doing it, if they are big enough men to take the burden on their shoulders and demobilize industry the way they mobilized industry in the period of the war to help win the war, it can be done.

The average manufacturer however is going first of all to look the field over. He wants to know just exactly what has taken place during the war period. In 1914 this country was facing an impending depression in business due to a greatly increased supply of manufactured goods over the available market and the demand. If the European war had not come at the time that it did come there is no doubt that there would have been a great business depression, that a great many men would have been out of employment and only the fact that the European war came when it did, prevented that business depression. During the period of the war we have built up an enormous industrial machine, so much so that our increased manufacturing facilities in eight of the principal manufacturing cities throughout the country have increased 94.66 per cent. In addition to that the increased output is 112 per cent. It stands to common reason that the manufacturers of the country are going to take these circumstances into consideration before they attempt a policy of reconstruction. If the depression that was impending in 1914 had come it would have meant a depreciation of values in industries throughout the country. There is no doubt whatever that the increased manufacturing facilities which we now have cannot continue after demobilization. We must get back to normal production based on the normal law of supply and demand. A continuation of the inflated values which we have had during the period of the war can be nothing but injurious, and must lead to a very serious condition. During the past year the acceptances discounted by the Federal Reserve Bank

increased over and above the increase in the gold reserve by one billion dollars. That condition cannot continue. A continued inflation is dangerous in view of the fact that deflation must precede the demobilization of industry and the demobilization of the armies throughout the world at large. The great trouble that we are going to face is financial rather than industrial. If the financial problem can be settled satisfactorily it will follow that the others will be settled automatically. In 1914 our foreign trade had reached a point where it was absolutely necessary to increase it as an outlet for the surplus manufactures which the available markets in this country could not consume. At that time 64.8 per cent of our exports were represented in raw materials only, leaving about 36 per cent for finished goods. We are now faced with the important necessity of developing an outlet to take care of our surplus manufactures, if we are going to take care of our workers, and continue industry on the same basis as it is now conducted. To do that we must first put into operation commissions which will investigate the foreign markets and find out exactly what their requirements are. These commissions however, or their success, will depend entirely on the methods which the government has still to expand for the development of foreign trade. Foreign countries have not the funds today to engage in commerce with us, and such commerce will have to be fostered by our present policy of paternalism. If this is done it will take from six months to a year to develop the European markets and the foreign markets at large, and it will take us certainly from three months to six months to adopt our manufactures to those markets. Consequently there is a period of between six and nine months that will have to elapse before we can find available markets for our surplus manufactures. The industries of the country responded patriotically to the government's demand—it was in the form of a demand more than a request—to mobilize for the manufacture of war munitions and supplies. It seems reasonable that the government should continue to extend to them the help which has been extended during the period of the war through the war-finance corporation, by an extension of credit through the Federal Reserve Bank. In this particular instance the average manufacturer in this country, whether he engages in domestic or foreign business, is severely handicapped by the cost of capital. In Europe business is invariably on a thirty-day basis, payment is made by trade acceptances, and the manufacturer can rely on turning over his capital (at least it is available for turnover in his business) on the basis of forty five days. In this country unfortunately we have never become alive to the fact that our capital should be available for our business developments. When we run short of capital we immediately get fresh capital in, we never think of cutting down the credit period. In my own business during the period of the war we have been able to reduce our credit period from approximately 120 days to a sixty-day basis, making the working capital available to turn-over just double the quantity during the period. In other words, with a working capital of a million dollars a manufacturer on a sixty-day basis can turn over his capital six times during the year, making available a turn-over of six million dollars, whereas if his credit period is increased to 120 days, with the same working capital he can only turn it over

on a three million dollar basis. In Europe the cost of working capital has always been much less than the cost in this country, and before we can compete even on a domestic basis it is absolutely essential that credit should be brought to a European basis, and the Federal Reserve Bank should be made available for that particular purpose.

Second, we come to the point of taking care of the employees that are going to be discharged from industry without the opportunity of re-employment. I am going on the view that no business man is justified in investing his capital in the manufacture of goods without an available market in sight, and certainly the available market today in the United States and the foreign trade, as we see it, does not justify a continuation of our present volume. Particularly as far as Great Britain is concerned, I am going on a statement of one of their leading financiers during the past week. When he was asked regarding the continuation of the restriction of their imports, and its probable length, he said, "Why, as far as that is concerned, we propose to continue the restriction on our imports for five or ten years. We are owing enormous sums to your country, and the only way we can pay is to increase our exports and reduce our imports to the point where we are able to reduce our foreign obligations."

Now that is sound. If England is adopting that policy as a whole I do not see how the average manufacturer in the United States today can do other than follow a sound policy of manufacturing and financing.

Further, the people of this country have been taught something with regard to thrift and the value of investment during the war. Their purchasing power has been steadily reduced from a pre-war basis. They have been purchasing Liberty Bonds and subscribing to the various war activities, and they have obligated themselves further to subscribe to the balance of the fourth loan, and the fifth loan which is to come out in the month of April. It would be foolish for the country at large not to appreciate the lesson which the average workingman has been taught. If we are going to secure an outlet in foreign markets it must be through investment in foreign markets. Great Britain and Germany have built up their foreign trade first by an extension of credits, and having extended the credit they can go and request as a natural right the business which will follow the development of the credit. We will have to divert the savings of our people for many years to come to secure an outlet in foreign markets by the extension of credits, and by the subscription to foreign issues. We have built up a merchant marine, and we have heard arguments that the merchant marine will take care of a large number of workers discharged from industries, and in addition to that we are considering building projects which will also make available work for a large number of men who will be discharged from war industries. Both of these proposals cannot be classed other than as public relief at the present cost of labor. No one is going to build a house, or invest money in building at the present high cost of labor and material, with the depreciation which will naturally follow. As far as our merchant marine is concerned it is absolutely necessary for the prosecution of our foreign trade, but the building of our merchant marine at its present cost, without removing the prohibitive legislation which we

have for its operation is no more justified than an extension in building or any other industrial extension at the present high cost of labor and material. We require the merchant marine to create an outlet in foreign trade to take care of our increased manufacturing facilities, but immediately the merchant marine is completed it should be released to private enterprise in the form of a government subsidy, and at a cost that will permit of its payment over a period of years. In addition to that there should be a subsidy which will permit its operation at the same rate of freight as European freight, and in that way the average American manufacturer will not have to contribute five to six hundred per cent for the privilege of shipping his goods to foreign countries in American bottoms.

Finally we come down to the point of my contention that this country's industries cannot take care of the demobilization of the industries, not to speak of the demobilization of the army. France and Great Britain have realized this very early and out of a total of loans to the Allies of over eight and a quarter billions they have set aside approximately two billion seven hundred and fifty million dollars for the reconstruction period.

France has decided that the production of war materials will cease progressively as military requirements and the available workers are taken into account, and has appropriated six hundred and eighty million dollars for transition to a state of peace. The decrees provide for the taking of inventories of establishments doing war work, prescribe regulations for the transition period, and provide for the reduction or suspension of war contracts and the substitution of peace contracts, and authorize the following expenditures:

\$360,000,000 in Paris for railway work.

\$200,000,000 for ports, bridges and roads.

\$100,000,000 in the communes for public works.

\$240,000,000 for use during the period of unemployment.

Italy has also provided for the transition to a peace basis and has appropriated the following funds for this purpose:

1,800,000 lire has been designated for railway construction.

100,000,000 lire for public works.

500,000,000 lire for public utilities.

100,000,000 lire for unemployment.

The exact figures of Great Britain's appropriation are not available, but it is conservatively believed to be in excess of one and one half billion dollars, and is to be used for practically the same purposes as the appropriations designated by France and Italy. If Great Britain in particular, among other European countries, with all her advantage of position through her foreign trade commissions and industrial trade commissions and reconstruction commissions during the period of the war, and with all her foreign trade in available foreign markets at this time realizes the impossibility of a quick transition to peace and the further impossibility of employing demobilized workers and her enlisted men in industrial enterprises, and has provided for them in the form of government pensions extending over a

period of six months from demobilization and has, in addition, provided industrial trade credits to permit the resumption of industrial manufacturing curtailed during the period of the war, it stands to common sense that the United States will do well to follow some such similar policy.

AUGUSTINE DAVIS, President, Davis-Bournonville Company: The National Association of Manufacturers which I represent, is composed of about 4000 manufacturers. I have just returned from the great business-men's convention at Atlantic City and wish to say to those assembled here that it is the desire of every business man to meet this after-the-war situation and take care of employees. As a manufacturer whose company has not been in business for more than ten years, let me say that we have never discharged a man except for cause; one of the greatest fears we have at the present time is that we may have to do so.

The Manufacturers Association has the greatest sympathy for crippled soldiers, and is trying to form a committee of one thousand to look after their interests. We are preparing to co-operate with the Government Vocational Board to educate crippled soldiers in oxy-acetylene welding and in other lines adaptable for the purpose.

With regard to the eight-hour day, I understand that the labor unions want the eight-hour day, and if it is now possible, I think the tendency of the manufacturers would be to accept that condition. Here is a little illustration of what it would cost my company with about 500 people employed, if we make an eight-hour day instead of a nine-hour day. It means fifty cents an hour for the average employee—that is two hundred and fifty dollars a day which, with the extra overhead charges, would amount to fifteen thousand dollars per month or one hundred and eighty thousand dollars per year. I just want you to think for a moment what it would cost to reduce time from a nine-hour basis to an eight-hour basis without reducing the pay, which I think is the wish of the unions. The congress which has just adjourned at Atlantic City authorized the United States Chamber of Commerce to appoint a committee to meet with the union officials, or organized labor, to see if they cannot get together on some basis to better conditions, and to take care of the situation which now exists.

From the discussions here today we have heard about the government being expected to support a number of vast undertakings. Where is it expected that the government will get the funds to provide for these enterprises? Largely from the manufacturers and business men. Nearly every business man in this land who has had war work, has made a good profit, but he has frequently had to extend his investments in buildings and labor, until he has expended more in machinery and buildings than his net profits have been. The thing that troubles and bothers him is how to pay his war taxes, and I hope labor can be made to see it in that light. I am chairman of the Industrial Development Committee of the National Association of Manufacturers, and one of the things that comes before my committee later in this month is the so-called Rockefeller plan presented at Atlantic City for industrial co-operation. The Manufacturers Association is composed largely of men of sufficient intelligence to know that if they do not

give their men good pay and provide them with the best working conditions they will not get best results.

Up to the presidency of Colonel Pope, the Manufacturers Association was considered by many as the enemy of organized labor. Under the administration of Colonel Pope, a policy of co-operation was advocated. When I was appointed Chairman of the Industrial Betterment Committee I asked President Mason what his policy would be and he said "Co-operation and conciliation." I want the laboring people to understand that the National Manufacturers Association is not opposed to the best interests of employees and that it will do everything it can to meet the readjustment situation and to find employment not only for the returning soldiers, but for all other deserving persons.

[336]

V

OUR INDUSTRIAL VICTORY

OUR INDUSTRIAL VICTORY

FRANK A. VANDERLIP

President, National City Bank, New York

MY subject is our industrial victory — and what a victory it was! The great victory, the victory on the fields of France, never could have been won without the industrial victory which men's co-operation and sacrifice, men gathering together the vast facilities of this country and finally pouring forth a stream of war products that simply overwhelmed the enemy, made possible. That was a victory in which the whole nation took part and which it won triumphantly.

We are amazed at our own greatness, we are amazed at the extent of this industrial victory, at the feat that was performed. Victories are not bloodless. Somebody gets hurt, and here, too, there have been some hurts. We have had to see introduced government regulations that have been unfortunate. They were necessary, but they have been unfortunate because they have brought fictitious conditions into our industrial and commercial life—they have unfortunately affected the minds of people. In some cases we have come, many of us, to lean on the government, and to believe that the government can do things that really, in the end, it cannot do. We must return, I believe, very largely, to the old conditions of individualism if we are to go on and work out our future to the best advantage. For my part I hope to see that return prompt and complete. There are difficulties about that. It would be very easy to argue that you might better go on with this thing and that thing, that there will be more or less chaos resulting from abandoning some of these regulations; but on the whole I am convinced that the sooner we return to the old order, the sooner these fictitious government regulations and interferences are done away with, the better prepared we will be to start on what must be a long, hard race.

We have been considering at these sessions the labor situation, and certainly there is nothing in the whole outlook that

is more important. We get widely divergent points of view. I have a plumber friend who used to work for me occasionally, and he has been earning \$100 a week in some government work, and in a recent conversation he told me that he was going to continue to earn \$100 a week, and that the government had to provide that job. That is a somewhat general view, hardly usual, but it is in the minds of a good many men.

On the other hand there are manufacturers whom I have heard say that they proposed to finish up their government contracts and shut down, that labor had to be liquidated, that wages must come down, that it was impossible to go ahead on this wage level.

Now, both of those points of view are wrong. The government is not going to provide jobs at impossible wages, and industry is not going to shut down in order to force a liquidation of labor or a reduction of wages. We are going to have a middle ground, and we are going to find a great many factors coming in to influence the situation, so that the result will not be extreme in either direction.

One picture is that there are billions of dollars of contracts being cancelled, that there will be millions of men thrown out of work, and that it will be impossible to find works of peace to employ these hands immediately.

Now, in some measure that is right, but I think a good many of these contracts, perhaps some billions of dollars of them, were really contracts that were industrially impossible to perform in the time that was laid out in which to perform them, and their cancellation does not mean the discharge of men, it means the cancellation of a paper contract. Of course there will be vast contracts cancelled, and great numbers of men thrown out of employment. There is a period of readjustment that cannot help but be a hardship in its effect, but still we have been growing, we have been making at least normal progress as a nation in these four and a half years of war, and we might remember that we would normally have had probably five million immigrants in that period, and we have had practically none. Instead we have lost almost a million of Europeans who have returned to their native lands within that period. There is a prospect of a very considerable outward movement of peoples after the freedom of travel is again

established. We will have one to two million men in uniform for some time to come, so there is not likely to be that surplus of labor which one might think would follow from the cancellation of these war contracts. There has been a great damming up of orders for many things, and there will be a vast amount of work to do. So I do not conceive that there is going to be that surplus of labor that would mean such a serious difficulty facing us as some people have anticipated.

Further, take the level of wages. Wages are high, but the prices of everything are high, and there is a very substantial economic reason in the currency inflation of the whole world that has been going on in these four years. We have seen drawn from the pockets of the people, drawn from circulation, a vast amount of gold which has gone into bank reserves. The Allies sent us one billion three hundred million dollars of gold, and there is more gold in every European bank today than there was at the outbreak of the war; so there has been a substantial increase in the basis of circulating money, and then there has been a great increase in some countries in the amount of paper money that has been put out. I believe we are on a level of prices where we are likely to remain for some time, for, while the war is over, the war financing is not over. There will still have to be a large loan made here, very considerable borrowings are going on now, six hundred millions of treasury certificates are being floated every fortnight, credit expansion is going on, and I do not see the wholesale immediate decline in prices that some people have anticipated. I know it is easy to imagine that prices have been driven up by this war demand, that they have now reached a pinnacle, and that there is nothing possible but a down grade; but prices are influenced by the volume of credit and money, and there again the result will be modified. We will have nothing so extreme, in my opinion, as some people may have imagined.

OUR INDUSTRIAL VICTORY

CHARLES M. SCHWAB

Director-General, Emergency Fleet Corporation, and Chairman of the
Board of the Bethlehem Steel Corporation

THE great questions confronting us today, it seems to me, are well answered from my point of view, by the method with which we undertook to build the ships during this last eight or nine months in the United States. When I surveyed the situation at Washington, Philadelphia, and the shipyards, it did not seem to me possible by any of the usual methods of manufacturing, such as the quick and rapid creation of additional facilities, to give us the ships as rapidly as they were needed, and I felt that something of a different character had to be adopted. That looked almost hopeless and impossible, and yet it was the simplest of tasks.

Many people hardly realize that this work was an engineering problem, not an engineering of mechanics or machines, but what I call human engineering—the engineering of the human mind, the human spirit and the human patriotism of this great country for the accomplishment of a great and a human task; and so, realizing that men of all descriptions, however high, or however lowly may be their station in life, work best under the approval and encouragement of their fellowmen, we tried to rouse in them the spirit of accomplishment necessary for the task, and it was worth economically five times the number of shipyards and workers that we had in the United States.

The working people of this country, the master shipbuilders of this country, the owners and managers of the properties building ships in this country, arose to the crisis as only a great American nation of workmen and managers can rise to a crisis, and the spirit of co-operation that prevailed in every department of this great industry was a marvelous thing, and one of such intense satisfaction and pride to every man who calls himself an American citizen as to give him renewed courage and energy for the struggles which the nation must now face industrially. So we went along on that basis. There was not

a change of any description made in the personnel of the Emergency Fleet Corporation, but a reorganization on the principle that each man had his great and patriotic duty to perform, and that he should perform it in order to entitle himself to hold up his head and say truthfully, "I am an American citizen;" and the working men of this country responded nobly to that appeal.

I heard much in the newspapers at that time about the fact that there was slackerism in the shipyards of the United States. That did not worry me. I knew that the dignity and spirit of American labor in the shipyards would see to it that the unsullied reputation of American workmen was not going to be jeopardized by the slackerism of a few. Therefore, so-called slackerism was to my mind of little importance in the construction of this great fleet.

Prior to this year the greatest output of ships in any year in the United States was about 400,000 tons, and that was a very large year. During the month of October we placed in commission on the seas 416,000 dead-weight tons of ships; and during the month of November, while the figures are not completely compiled, I have no hesitancy in saying that it will exceed 500,000 tons of ships. I can give you assurance that during the next twelve months the shipyards of this country will produce somewhere between eight million and ten million tons of ships.

But in my opinion a more serious question faces us now with reference to the operation of the ships than faced us for the construction of the ships. Of what value is this great fleet to us if we cannot permanently and economically operate the same? I appeal to every American citizen who has the welfare of his country at heart, to use his individual efforts to secure such conditions as will enable the United States to gain her proud possession of the mercantile marine and retain it as such; and I believe that such operation may be economically and permanently maintained only by individual ownership and initiative. The mercantile marine of this country is valuable to every citizen in the country, whether he be the cotton grower of the South, the lumberman of Oregon, the manufacturer of New England, the merchant of New York or the farmer of Nebraska. It is of equal interest to every industry and every

citizen, and whatever the method may be, each individual citizen must be willing to play his part, because he derives an individual benefit from it.

Now, I always like to have people know that this great shipbuilding undertaking was not the work of any man, any one man, or any set of men, but it was the joint work of many hundred thousands of men. However there are some men that contributed unusual efforts to the construction of these ships and the things that pertain to the construction of ships. The one thing that I feared above everything else in these troublous times was the duty assigned to the man who was the Chairman of the Board for the Adjustment and Regulation of the difficulties in labor in the shipbuilding industry; and I want to say that no man connected with the Emergency Fleet Corporation made greater personal sacrifices, gave evidence of greater ability, or was a truer American patriot and helpmeet than that man.

I wish to say a word about Mr. Gompers. You know Mr. Gompers and I have had our differences; but they have never been personal differences. Mr. Gompers has stood for what every American citizen must stand for in these days, and for which he deserves the everlasting gratitude of everybody, and that is his attitude against anything that savored of socialism or Bolshevism in the ranks of American labor.

You know we sometimes think, we employers of labor, that Mr. Gompers is pretty hard in looking after some of the terms of his people. I have no doubt that he thinks the people employing labor are a great deal worse than he is, and in many respects perhaps he is right. I remember some twenty years ago, when all of us who were concerned with capital in this country, were devoting the most of our time to seeing how we could so combine that capital as to give us the best results for our business, and it was not always combination for economic purposes, it was combination for purposes of restriction of output, or the maintenance of a definite price; but we soon learned that that did not pay, that nothing pays that is not founded on a permanently economic basis. It may go on for a time, but these things will soon correct themselves. So it will be with labor. Labor must be founded on a purely economic basis to be permanently successful, and any other basis will result to

its discomfiture and disadvantage as the years roll by. One of the great lessons that this war has taught us is that we are now in an age of democracy. Those are words that we hear used upon every occasion by practically every speaker—the war is a triumph for democracy, and if I understand it correctly, it is my belief that we have reached a state of society by which we have learned to know the value of every man in society, and that we shall in the future have a closer relationship and understanding between all classes of society. I have often said, and it will bear repeating, that to my way of thinking the man of the future, the man who to-day occupies a position of aristocracy, if you will, is not the man of birth or wealth, but the man who does things for the good of his country and his fellowman.

I am not worrying much about the labor situation during the present crisis. I believe that employer and employee will come closer together in mutual understanding of the economic conditions for the good of all concerned. Business is like a three-legged stool—the legs are capital, management and labor, and the stool cannot stand without all three. We cannot remove any one of them and have stability for a moment. For any one to understand economics and successful business, he must realize that these three great legs of the stool must be dealt with collectively and understandingly; and therefore with the lessons that this war has taught us I feel that there will be no difficulty between capital and labor in reaching a permanency of economic operation that will keep this great United States always in the proud position which we have won in the industrial world.

I am an optimist, I believe in the future, and I am going to progress just the same in the future as I have in the past. I am not afraid to invest my money in anything connected with this great United States of ours. I read in a paper the other day that the bankers hate to see me come around, because they know I will borrow money, and put that money into furnaces and smokestacks and boilers, and railways, and manufacturing concerns generally, and I said, "Yes, that is true"; and if the monument which I leave behind me is marked by a majestic row of smokestacks and boiler works and machine shops and engines, I shall be prouder of it than of any of the magnificent works of art money could erect to my memory.

Now, if I get the money I will be very proud of the financial diplomacy that enabled me to build these works. Let us look with confidence into the future. It is true that we are going to have disturbances during this period of transition, but they are going to be of a minor character, they are not going to be serious, and with the temper of the people in this great country, they will be quickly solved. I wonder if you realize what a great country this United States of ours is? God has endowed it with more of the riches, industrial resources, than any country on the face of the earth. But above all it has been endowed with a people who stand for energy, integrity, patriotism, love of country and love of fellowman that is second to no other country on the face of the earth, and under those conditions we must progress onward and upward, as long as such a people live in such a country. That is the feeling which I have with reference to this great and glorious country of ours. There was a time when people hesitated to acknowledge that their fame and position in life rested upon trade or industrialism. What a change has come over the world! Here the people who create industrially for the good of their country are the people who may hold up their heads the highest and feel the proudest at what they have accomplished for the good of their country and the good of their fellowmen. We are an industrial nation, we are going to be an industrial nation, we are going to be all the things that we have set out to be, and more, we are going to build this great fleet of thirteen million or fifteen million tons of shipping within the next twelve months, which, above everything else will tend to tide over the readjustment of labor in this country. But it is not the man who has built ships, it is not the man who has built aeroplanes or locomotives or machines that has won this war, because machinery has won this war; but it is the boys that made the supreme sacrifice in the trenches of Flanders, whose names will deservedly go down in this country's history; and while it has been a pleasure to build the ships to take them there, and to feed them while there, what a glorious pleasure it will be to build the ships to bring home this victorious army to our firesides and the prosperity which is sure to follow their great victory for mankind.

I am an optimist, as I said before. I look forward to pros-

perity in this country, but I look forward to something of greater moment than prosperity, I look forward to an era of happiness and contentment that is worth more than all the days of prosperity that may come to any nation. If real advancement comes it is only the man and the woman of a happy frame of mind that really does things worth while, and that makes the real advancement and credit to the nation. When I say men and women, I must take this opportunity in closing to pay the tribute to American womanhood which it has won for itself during this war. Nothing else was to be expected of American women than that which they have done. It shall always be a pleasure for the American man to pay the tribute to the American women which they deserve for the part which they have had in the winning of this great and glorious victory.

Now, in concluding, let me say, look forward with a spirit of optimism, with a determination to go right ahead. You who have industries or business must feel that while we may have a slight depression the trend will always be onward and upward. In my own business career, optimistic as I have been, I have never been as optimistic as future events warranted. I have never in my wildest dreams thought ahead, that we have not done greater things, and when we speak of this war, count the numberless things which we have undertaken industrially to win it, we will magnify our undertakings and endeavors, as we are wont to magnify them with time, and we will say with the poet of old, with truth: "In time to come it will delight us to have remembered these things." We are going to be a great nation, and if we are going to have the place we have won for ourselves in history, we must have confidence in ourselves occupying that position, and enjoy that greatest blessing of all, contentment of mind, peace and prosperity to all mankind in this great and glorious age.

OUR INDUSTRIAL VICTORY

SAMUEL GOMPERS

President of the American Federation of Labor

I do not know that I am entitled to very great credit because I am not a Bolshevik. I do know that with my understanding of American institutions and American opportunities the man who would not be a patriot in defense of the institutions of our country would be undeserving the privilege of living in this country. It is true that we have been discussing democracy, and we have used that term glibly and often without understanding. It is true that we have discussed freedom and often without understanding. Indeed, the three times that I have had the chance to be and was in Germany, I have never heard any people so vociferously and enthusiastically singing and shouting the terms of freedom and democracy. In these societies of the German people in the United States, in season and out of season their songs were based upon freedom and democracy. That was the theme which they sang, and yet we know, those of us who have observed, those who have been in their country, how narrow was their concept of freedom and democracy.

Freedom is not a condition, nor is democracy a condition. Freedom is the exercise, the functioning of freedom, the practice of freedom, the practice of democracy. All that society can give, all that government can give, is the opportunity for freedom. It depends upon the people to be intelligent and grow into the feeling, the exercise and practice of the function of freedom. It was because the principles of freedom and democracy were menaced by the system of autocracy and militarism that the people of our country and the people of the other countries, of the democracies of the world, rallied around their banners, and declared and made good their willingness to make the supreme sacrifice, for the principles, the institutions and the practice of freedom which were in danger of being overwhelmed and crushed.

If I thought that Bolshevism was the right road to go, that

it meant freedom, justice and the principles of human society and living conditions, I would join the movement in a minute. It is because I know that the whole scheme leads nowhere, that it is destructive in its efforts and in its every activity, that it compels reaction and brings about a situation worse than the one it has undertaken to displace that I am not of it.

I stand in so far as I can and dare—and I dare much—for the principles of natural and rational development and growth. I am opposed, as is organized labor of America, to any destructive policy. There is nothing that is worth while maintaining that I would aid or abet in destroying. Our policy, our work, our method, our idea and our ideal, is to build, to construct, to grow, to help in the development of the highest and best in the human family, and to make today a better day than yesterday, and to make tomorrow a better day than today, and tomorrow, and tomorrow, and tomorrow's tomorrow, each a better day than the one that has gone before. That evolutionary process of progress and improvement is the basis for the opportunity for freedom and justice and democracy. In the United States, therefore, I am not only a trade unionist, but I am a citizen. I am proud of the work which my associates and I have tried to do as trade unionists, as members of organized labor. I am proud of our record, proud of our activities in making good our allegiance to the greatest and most glorious republic ever instituted in the history of the world.

About one remark of Mr. Schwab's I feel impelled to express a sort of semi-dissent. Perhaps to express a comment. In his address, he spoke of something greater than prosperity, that is, the contentment and happiness and glory of our people and our country. May I call attention to this which I believe to be a fundamental fact: that is, that unless there is prosperity there can be neither contentment nor glory in the home. A hungry people cannot be content. A people which has less than a living standard, a standard such as we understand to be the American standard of life, is not content and cannot be content.

I believe that the principles declared by the War Labor Board, or by the War Labor Conference Board which created the War Labor Board, are fundamental in bringing about a greater degree of contentment and happiness. I shall en-

deavor from memory to recount a few of the declarations which were made by the War Labor Conference Board and put into practice by the proclamation of the President of the United States.

That the workers in government employ, and those who are engaged upon work for the government should have a living wage, a wage that shall be commensurate with a decent American standard of life.

That the hours of labor should be upon the basis of eight hours.

That unskilled workmen, common laborers, should have a wage which would afford them and those dependent upon them a decent standard of living.

That the labor of children should not enter into the industries of our country.

That when women are employed to perform work such as is performed by men, the women should receive equal pay for equal work.

There were some other declarations of the same character. I mention them because I believe that if accepted in principle by the employers of labor in our country it will contribute more than any other one act or agency to bring about contentment and happiness and progress.

Just before the war, or just after the war was thrust upon us, in conference with my associates of the Committee on Labor of the Council of National Defense, composed of workmen, employers, business men, we formulated a declaration regarding standards during the war. One of the gentlemen of the committee applied an American phrase to the declaration which, though not made a part of it, was quite apropos. It was this: "This is not the time to rock the boat."

That was at the beginning of the war, and to meet the problems of peace I am going to apply that same phrase to the present situation now that the war has practically come to an end. It is not good now to try to rock the industrial boat.

This one fact must be distinctly understood, that the working people of our country who with you and your brothers and sons have made in many instances the supreme sacrifice for victory, and the men who have given their services in industry and in commerce, are not going easily to take to the pro-

position to force them back and down in the industrial scale. As has been said, there must be recognition of the condition and situation; each must recognize the principle that as we were united during this tremendous struggle, the most momentous in the history of the world and the most far-reaching in its consequences, so now that peace has come, the problem of working out industrial situations now and for the future must be faced with a spirit of co-operation and co-ordination. We shall never go back to the old conditions. We have been fighting for a principle of justice.

It is mooted and urged—and I am in a way associated with the movement—to help establish a league of nations or a league to enforce peace. May I present this thought to you in connection with that proposition? It contains the germ of justice, but the instrument proposed to secure and maintain justice is power and coercion. It seems that not any of us, or not many of us, are willing to submit, except in an abstract form, to the pronouncements of justice unless we are confronted with an alternative which is sometimes unpleasant. It is proposed to enforce justice upon the wrongdoer, or upon the negligent or the indifferent nation. I ask you whether there is not some application to that thought in industry. We hope to bring about a better day and a better time, to see to it that this republic of ours shall grow industrially, agriculturally, commercially, financially, spiritually, humanely, and so that we shall not only be a great workshop for the world, but that we shall be, as we have been, the political beacon for all the world, that we shall be the industrial and humane light of the world.

I am very much impressed with all the privileges and the opportunities afforded to you and me in this crucial time. I have said that this war ceased to be a war after we went into it and became a crusade, and was put upon a greater and a higher basis than the world could understand. The young man of eighteen and twenty grew over night to be a man of thirty in valor, experience and opportunity. The man of fifty or sixty was rejuvenated and became like a fellow of sprightly forty.

It is a great privilege to live in this age. It is a great privilege to have helped, even in the slightest, to the great triumph

of our arms, of our manhood and womanhood and of the spirit of the people of the republic of the United States. Having been over there, having seen the devastation wrought by the German military machine, and having seen the battle raging during the period that I was privileged to be there; having seen our valiant men, the great generals and the rank and file uniting their spirit, giving and receiving encouragement; having been upon the battlefield in the front trenches and upon the front ramparts, and within easy firing distance of shot and shell—I say to you, men and women of America, the glory of it, despite the sacrifices of it, will so rejuvenate and regenerate the people of this republic and make this country of ours so great and glorious that the pages of history of our time will be resplendent in the eyes, in the memories and in the yearnings and gratitude of the generations yet unborn.

The spirit of our fighting boys, the spirit of the men who commanded them, the veneration they have for each other, and the great profound impressions new and old that they have of this republic of ours, will last long, and you and I, who have done even the smallest share to contribute to this tremendous, powerful and wonderful triumph, will be remembered in the prayers of our fighting boys. Let us for the future prove as true to our great cause and to our country as we were true during the trying ordeal.

[352]

OUR INDUSTRIAL VICTORY

WILLIAM HOWARD TAFT

Joint Chairman, National War Labor Board

I AM glad to have the privilege of coming here and of hearing my dear old antagonist, Samuel Gompers, talk to you in this fashion. I fully concur with him. During this war Mr. Gompers' attitude toward fighting it through clear to the end, toward unconditional surrender, and the complete defeat of militarism, made me feel that he was playing a part which entitled him to the gratitude of all. He represents organized labor, and worthily represents it. I have been engaged with organized labor in many different capacities. The most recent has been as an associate or joint chairman of the National War Labor Board.

The experience on the War Labor Board has been very valuable to me, more so perhaps than to others. While that experience was most enlightening to me, I do not feel that it gives me any real ground for expressing an opinion as to what is going to bring about the proper relation between employer and employee. I am too old to think that these recent experiences and other experiences, have enabled me to discover a solution of a problem most difficult to be certain about. But this I am convinced of, that the advantage of the group system of dealing between employers and employees is one that must be fully recognized by every one having any vision of the future, and that what is essential is that the groups should be so organized that somebody on each side shall be responsible for the justice of the action of the respective groups. I have had experience enough to see that there are extremists on both sides, that there are Bourbons on both sides. There are those on the labor side who have their defects and do not understand the problem, and there are others on the manufacturers' side who are equally ignorant, equally selfish, and equally narrow in their vision.

Everybody will agree that what is needed is just concessions on both sides. The difficulty is in defining just

what those concessions should be, and I am not here tonight to try to define them. I have a conviction, which my judicial experience deepens, that the side which beats the other to a generous course is the one that will have the advantage in the end, that when a concession is wrung by hard circumstances from those who ought to have granted it originally, the concession does not secure all that might have been obtained had it been granted earlier. In other words, if you would conciliate labor, if you would make the rigid rules of the unions, so often regarded as inequitable, less rigid and inequitable, you should outdo the unions in the matter of fair and just treatment of employees. If, on the other hand, the men desire the fullest consideration, let them render in the services which they tender, a full day's work for a full day's pay.

I do not know that these statements will help. A long life has burned into me a fear of general maxims delivered in a ponderous way with a suggestion in manner that by the general phrase one has solved the difficulty. I do not feel competent to do more than this and I realize how little it helps.

As I came in I heard Mr. Gompers speak of the league of nations to enforce peace; after his speech, and in this presence, it may not be worthless for me to say that there are those of us who are convinced that that is essential to the making of peace which shall accomplish the purpose of the nations who have sacrificed so much in this war. We confidently count on the support of organized labor and all labor in the demand for that league of nations that shall make peace permanent.

We have heard in some of our conventions statements from socialists who went abroad as socialists to deal with the socialist groups of the allied countries; we have heard from the representatives of labor who went abroad in two commissions to deal with organized labor, and committees of the allied countries; and we have heard from them the very great use which Germany made of her socialists and her organized labor. The headquarters of organized labor in Europe was located in Germany, sapping the foundations of the loyalty and persistence of the peoples of the allied nations in carrying on this war. Thus Germany had great success in leading on those elements in Russia to betray the Russian people into the

control of Germany, and then into the control of that enemy of mankind, Bolshevism. Our labor people and our socialists did a great work, so far as I am informed, by "throwing a monkey wrench" into the machinery of German intrigue intended to win the war by leading on the workmen of France and England and Italy to give up the war. We ought to be grateful to those elements that entered into the successful sustaining of the nerve and morale of our allied people to carry this war through to the end. They have come back now with the story that those plain people of the allied countries were carried through this war, were sustained in their morale, with the conviction that the end of the war would bring a permanent peace through the agency of a league of nations. That league of nations is with them a passion, as representing the high ideal for which they were fighting in the war, and they look to the United States to father that idea and to stand to it and carry it on to realization, so that all the sacrifices of this war may be justified in the machinery that shall make peace permanent and preserve justice between the nations.

[355]

APPENDIX ¹

OUR INDUSTRIAL VICTORY

SAMUEL M'CUNE LINDSAY

President of the Academy of Political Science and Professor of Social Legislation in Columbia University

It was my privilege and duty yesterday afternoon to open the conference on Labor Reconstruction for the Academy with a few words of welcome. It is an unexpected pleasure and duty that the Committee has imposed upon me this evening to say a brief word of introduction at this closing session of the conference.

This is the Annual Dinner of the Academy of Political Science. It is the largest gathering of all the annual or semi-annual dinners in the thirty-eight years of the history of the Academy. The response to the program of this annual meeting for the two-day labor reconstruction conference has been a very gratifying one indeed. It is an evidence of a very widespread interest in the tremendous problems of readjustment that confront the country at this time. It is very appropriate that at this closing session the general topic of our discussion and thought should be: "Our Industrial Victory".

The characteristic American spirit will characterize the way we take the great victory that has been won for democracy and for the rights of the free peoples of the world. A large part of that victory has been an industrial victory brought about by the organization of the economic forces of the life of this nation in a way which made it a powerful factor in determining that great victory. A great deal will depend upon the spirit in which we take that victory. I hope for one that it will be with a very modest estimate of our achievement and a very lively appreciation of how far short we came of what we might have done had we not been caught unprepared for great social undertakings. If we take this great industrial victory in that spirit, assuring ourselves that it is nothing to what we are going to have in the industrial victory of the years to come, this war and all its victories, military and industrial, will indeed be a great blessing for this country.

There sits at the head of this table as the presiding officer of this session a great captain of finance, and at his right sits the greatest captain of industry in this country, the largest single employer of labor in this country, the man who by his genius has known how to organize men, to organize capital, and to get great results. I am sure there

¹ Introductory remarks of the President of the Academy at the closing session of the Labor Reconstruction Conference.

is not a man or woman in this audience to-night who does not feel a very real sense of appreciation for what Mr. Charles M. Schwab has done in this great national crisis. On the other side of the presiding officer sits the greatest leader of labor in this country, Mr. Samuel Gompers, a man who had already reached the years when he might well expect to lay down the heavier tasks of an active life, but who instead has girded himself for the fray, and just as he has led men in their aspirations and hopes for better working conditions during all these years, so he has given that same genius of leadership and organization to his country in her hour of need. I think we all feel a very deep sense of appreciation of what Mr. Gompers has done. My associations have not been very close with either Mr. Schwab or with Mr. Gompers, but I have a somewhat similar feeling of regard that amounts almost to affection for each of them. They seem to me to represent one and the same person in this great undertaking through which we have passed on the road to our industrial victory. They have been as one man during these recent months in leading and organizing and building up the great sources of economic strength in this country, and I cannot help but feel that in the years to come one great result of this industrial victory will be that men like Mr. Gompers and Mr. Schwab are going to go forward united as one man in the great task of rebuilding the economic life of the country.

I wish the Secretary of Labor were here this evening. We had a telegram from him a few hours ago saying that he has been detained in Washington and is unable to get here. I wish he could have said to you personally what I know he would say if he were here, but what would mean so much more if he were here in person to say it as the official representative of the labor interests of this country and as the head of the Department of Labor. The next three or four months are going to be very trying months. If we can get over them as we got over the first three or four months period of our unpreparedness for military operations, we will enter without any shadow of doubt perhaps the greatest period of industrial prosperity this country has ever known. But these next three or four months are going to be very difficult months to weather industrially. Capital must readjust its investments made for war purposes, and they must be transformed into investments in enterprises for peace purposes. Thousands and perhaps millions of men must be transferred from one type of industry to another, and the things found for them that they can do best. There is a new spirit of life and enthusiasm for work abroad in the land, and if we can only organize that,—and we can do it in the next three or four months if we follow precisely the same method that was followed in those three or four months, those anxious months when we were unprepared for war. What was the outstanding characteristic of that method? Why, it was the spirit of unselfish devo-

tion to the public interest that was manifest in every hamlet in every part of this land. Men with great business interests at stake thought nothing of throwing aside those interests, forsaking every selfish and personal advantage and offering themselves to the government. Labor was patient in the period of trial and stress. It also gave up many opportunities for selfish advantage and strenuously turned away from many things that it was accustomed to do, and tackled with great enthusiasm and perseverance the new tasks which it had to perform. Its attitude was, "Is there anything else that it is necessary for us to do?"

It seems to me that the next three or four months are months of trial and stress in which precisely those same tests must be met. If the wage-earner is willing to be patient in making the adjustment that it will be necessary for him to make, if capitalists and investors are willing to be patient in seeking to protect their legitimate interests, and take, perhaps, some chances, we can all work together to get over the next three or four months and share in this new period of industrial prosperity, when we shall begin to reap the full fruits of our industrial victory. The wave of thrift and economy that meant so much in the life of the nation during the past year can be utilized in investments in the legitimate course of business which will bring profit to the individual and yet maintain the new standards, the somewhat higher standards, of wages and working conditions which the wage-earner has won during the war. These can be maintained and perpetuated because of an increased efficiency of labor and an increased earning power of labor.

This seems to me to be the thought and dominating spirit of the government at Washington, and the dominating spirit of the leaders of industry and labor throughout the country. A great gathering somewhat similar to this has just come to a close at Atlantic City in the meeting of the Chamber of Commerce of the United States, having in its membership the representative business men of the United States. We were told at the session of our conference this afternoon by a representative from that gathering that precisely that spirit was the spirit that dominated the Atlantic City conference. We shall hope in the course of the next few weeks to print the very valuable suggestions that have been made by many speakers who have taken part in this conference, and thus put in the hands of all the members of the Academy a volume that they can distribute and circulate among those who have to do officially and unofficially with the labor problem in all its varied aspects. Not the least valuable part of that volume as a helpful means of understanding representative sections of current public opinion will be the views on our industrial victory of such representative citizens as those from whom you are to hear this evening, Mr. Frank A. Vanderlip, Mr. Charles M. Schwab, Mr. Samuel Gompers, and Mr. William Howard Taft.

7-8^c

PREFACE

The papers and addresses published in this volume were presented at the National Conference held at Columbia University in New York City on June 5th, called by the Academy of Political Science and constituting the semi-annual meeting of the 39th year of that organization. The purpose of the Program Committee in organizing the work and program of the Conference was to bring together in two brief sessions, and in the papers submitted to be read by title, as many different points of view as possible for the elucidation and critical discussion of the more important problems involved in the proposed Covenant of the League of Nations. At the time these speakers were invited and these papers and addresses were prepared the full text of the peace treaty was not available in this country. Only the official text of the preliminary reported draft and that of the Covenant as finally adopted at the plenary session of the Peace Conference had been presented officially to the United States Senate as submitted by Senator Key Pittman, published as a Senate Document, and reprinted as an appendix to this volume.

Only the general aspects of the Covenant and a few of the more important points of departure for its thorough-going examination in its bearing on the new international obligations of the United States arising under the Covenant, could be tentatively considered in the absence of the full treaty by the distinguished publicists who addressed this conference. The members of the Academy, teachers and leaders of public opinion, American statesmen, editors and public speakers, who will be called upon during the next few months to pass upon the most important document affecting our national life since the adoption of the Constitution of the United States, will find in these pages a stimulating and constructive aid in arriving at a scientific and sound judgment.

It is, of course, the function of the Academy in its efforts to render this kind of service to present independently, fearlessly and in a non-partisan spirit both sides or as many points of view on controverted questions as may find worthy expression from those entitled to a public hearing. The authors of these papers and addresses are alone responsible for the views therein expressed.

The Conference was very well attended. Representatives of many other organizations including chambers of commerce and business

as well as professional bodies deeply concerned in these matters of national importance were present by invitation, and the eagerness and appreciation of the large audiences who listened to the addresses delivered at the Conference, furnish ample evidence of the virility of our American national life and of the advantages and necessity of ample opportunity for the freest possible discussion of public questions in a real democracy.

The thanks of the Academy are due to those who participated in the program and to the members of the following committees whose individual cooperation contributed so much to its success:

Program Committee — Samuel McCune Lindsay, chairman *ex-officio*, Nicholas Murray Butler, Stephen P. Duggan, Abram I. Elkus, Franklin H. Giddings, Frederick A. Goetze, Charles D. Hazen, Charles E. Hughes, Adolph Lewisohn, Howard L. McBain, V. Everit Macy, William P. Merrill, Dwight W. Morrow, Henry R. Mussey, Herbert Parsons, George A. Plimpton, William L. Ransom, Henry R. Seager, E. R. A. Seligman, Albert Shaw, William R. Shepherd, Munroe Smith, George W. Wickersham.

Reception Committee — Edwin R. A. Seligman, Chairman, John G. Agar, Mrs. Alfred C. Bossom, Mrs. William T. Brewster, Wendell T. Bush, Mrs. Nicholas Murray Butler, Milton J. Davies, Mrs. John H. Dorn, Stephen P. Duggan, Mrs. Abram I. Elkus, Frank D. Fackenthal, Mrs. Fabian Franklin, Miss Mary Garrett Hay, Mrs. Helen Hartley Jenkins, R. C. McCrea, Henry Lee Norris, George A. Plimpton, Henry R. Seager, Mrs. James T. Shotwell, Mrs. V. Simkhovitch, Mrs. Robert D. Sterling, Charles Thaddeus Terry, Paul Wilson.

Finance Committee — Adolph Lewisohn, Chairman, Thomas W. Lamont, George A. Plimpton.

THE RELATION OF THE COVENANT TO RECENT INTERNATIONAL COOPERATION

DWIGHT W. MORROW

Member of the firm of J. P. Morgan & Co., Adviser to Allied Maritime
Transport Council

THE able President of this University, the presiding officer of this meeting, has stated that our purpose is to determine whether or no the proposed Covenant promotes, or has a reasonable chance of promoting, the purpose toward which it is aimed, and second, whether it is in consonance with the traditions and policies and high ideals of this country.

Now, I take it that the particular theme that has been assigned to me in the discussion this morning is a little smaller than that, considerably smaller than that. As stated on the program, it is "The Relation of the Covenant to Recent International Cooperation." That calls not for an argument but for a narrative. Whatever your opinions may be upon the question that is so important to the people of this country and the people of the world, you may be interested in an entirely informal talk upon the relation of the Covenant as drafted to the international cooperation that went on during the war.

Perhaps, however, I should say that I think there is some misconception as to the purpose of the Covenant. We have heard a great deal in the last few years—ever since the European War started—about this being the last war. The Prime Minister of England, when he announced the armistice to the House of Commons on the afternoon of the 11th of November, said: "I hope we may say that thus, this fateful morning, came an end to all wars." I confess that such a statement calls for a greater degree of optimism and a greater degree of faith than I have. I doubt very much whether we are at the end of wars. Moreover, I feel that any responsible statesman that formulates a policy of national defense upon the theory that there are to be no more wars will not be taking proper

care of his own nation. But I do think that it will be a very great shame to the people of this generation if they cannot do something to reduce the chances of war. I think it will be a betrayal of a great many men who have died if this generation does not do all that it can to prevent a repetition of the world catastrophe under which we have been living for almost five years.

But we are not going to make headway unless we frankly recognize the nature of the problem. For almost five years we have heard a lot about plans for making war impossible. I think the people of this earth can make wars impossible when they want to do so—when they are willing to pay the price! We must not expect to get anything worth while for nothing. I do not think that the people of the world want to pay the price. Moreover, I do not think that they ought to pay the price! That may startle you. We speak of “peace” in a loose sort of way. What do we mean when we say that we want universal and perpetual peace? Mr. Spencer Wilkinson, in an able book which some of you may know, says that we use the word “peace” in at least three different meanings. In the first place, it may mean peace of mind, the peace of Marcus Aurelius, the peace of the New Testament. That kind of peace pretty much depends upon the one that wants the peace. In the second place, we may mean by the word “peace” the absence of strife with other members of the same state. When we say that we desire peace in that sense we mean that we desire to live rationally with our neighbors, that we want them to do justice to us, and that we want to do justice to them. It is hardly too much to say that it is the primary purpose of the state to create and preserve that kind of a peace. But there is a third sense in which we use the word “peace;” that is, to describe the absence of warfare with another state. When we talk about wanting perpetual and universal peace we generally mean that we want this third kind of peace, that we want to do away with armed, legalized conflict between organized states.

Now, do we want “peace” in the third sense *at any price*? I doubt if we want it at the price of peace of mind. Obviously, we do not want it at the price of domestic peace within the state. There was absence of warfare between organ-

ized states for a while during the dominance of Rome. For a short time there was what might be called universal peace; but it was a peace of force, it was a peace at the expense of liberty. It was order imposed by a central authority, and this order was at the expense of the liberty of the local communities. For three hundred years and more we have been getting further and further away from that kind of a peace, and one of the great things that they are doing at the Peace Conference at Paris to-day is to destroy the tag ends of that old Roman peace. One of the main jobs of this Peace Conference is to disentangle the dead fingers of the Hapsburg family from the central part of Europe. The Peace Conference is making five or six new states between Russia and Germany. Heretofore there has been considerable order in the area covered by these new States, but there has been very little liberty. They are destroying the remnants of the Roman peace in that part of the world because peace bought at the expense of liberty is too expensive a thing.

This is a very important thing to remember. In fact, I do not believe that we can have any intelligent discussion of this Covenant without realizing that the document does not create a world-state. The world is not ready for a world-state. The world is not ready for an international police force. An international police force that is strong enough to keep order in the world will be strong enough to impose injustice. The power to command that international police force will have to be given to some one. To whom are we to give it? To the United States? To England? To France? I do not believe that there is any responsible statesman in the world that believes to-day that the people of the world are ready for a world-state. Moreover, if you read the document carefully, I do not think you will find that it does create a world-state. Like most documents which are the result of agreement, it shows its complex origin. In more than one place its form is the form that might be used in the creation of a world-state, but its substance is the substance of an international convention; and it is the substance with which we are mostly concerned. I believe that the plans for a world-state which the seers have been making for more than three hundred years had very little influence on the substance of the document. I

believe that the document is the direct outgrowth of The Hague Conferences and of the international bodies that were formed during the war. And my purpose to-day is to tell you just a little about some of those international bodies and about the way that they worked.

In the earlier years of the great war, Great Britain, France and Russia were compelled to carry on what practically amounted to three separate wars against Germany. The three great states had different types of munitions, separate supply systems, separate military command. When Italy came into the war she added a new type of munitions, another independent supply system and another independent command. It has always been difficult for an alliance properly to coordinate and exercise the joint strength of its members. When the inner history of this war has been written, it will be disclosed that it has been no exception to wars carried on by alliances. When they were trying to get a unified military command, Mr. Lloyd George made a statement in the House of Commons which showed how difficult cooperation among allies is. He stated that he was ready to agree with the witty Frenchman who had said some weeks before: "I have about decided that Napoleon wasn't very much of a soldier. He never had to fight against anything but an alliance." Now, that statement is a fairly good picture of the way responsible statesmen looked at the question of cooperation.

In modern warfare a supply system stretches literally to the ends of the earth. The Allied governments were necessarily in active competition for raw materials, without which they could not successfully wage the war. Cruel experience taught the Allies the lesson of cooperation; German strength compelled them to put the teaching into practice. At first, cooperation was necessary to reduce the great financial burden imposed upon the Allied governments by the rapid advance in prices resulting from competitive buying. When the German submarine campaign reached its climax in the spring of 1917, the scarcity of shipping necessitated a much closer cooperation. It was no longer a question of what things cost, it had become a question of whether the necessary materials and food could be obtained at any price unless the several governments arranged to bring those commodities from the nearest source of supply.

In 1916 and 1917, a body known as the Wheat Executive, upon which England, France and Italy were represented, was formed. This body met in London; it made programs of the cereal needs of the three countries and determined the source of supply from which the needs of each country should be met. The principle of the Wheat Executive was that each of the partners was to submit to the others cereal programs for criticism, the belief being, and the result proving, that if each country knew the sacrifices that the other countries were making, friction in waging the common war could be avoided. The programs having been made, the Wheat Executive also undertook to carry them out. To this end it created a common buying organization. Great Britain from the beginning had made allocations of tonnage to France and Italy. After the Wheat Executive was formed she continued to furnish the tonnage necessary to transport the agreed cereal requirements.

After America's entry into the war an Inter-Allied conference was held in Paris in December, 1917. This conference adopted a much more comprehensive plan for dealing with the whole problem of imports from one country to another. It must be remembered that at this time it had become apparent that the vital problem of the war was the marshaling of the resources of the states opposed to the Central Powers in such a way that they could be brought to the point of contact with the enemy before it was too late. There was known to be a limited supply of materials and of maritime transport. The aggressive submarine campaign of the Germans was making the shipping situation more critical each month. The Paris Conference of December, 1917, realizing that waste by one state of any of its merchant tonnage was a weakening of the united war effort and, therefore, an injury to the whole Allied cause, struck out on a bold, new plan. This plan did not contemplate a pooling of tonnage under a single direction. In fact, as the record shows, such a proposal was made and rejected, partly because the Allies with tonnage would not delegate the absolute power to dispose of it, and partly because it was believed that such a plan would not lead to administrative efficiency. The plan adopted contemplated a complete interchange of information upon which, it was expected, joint action could be taken. Tonnage was to be allocated upon the general

principle that there should be a reasonably uniform standard of adequacy both as between commodities and countries. It was recognized that the main difficulty was to get the facts as to the imports necessary, and that these facts could be secured best by Inter-Allied bodies, the members of which would submit the import programs of their respective countries fully and frankly and invite friendly criticism thereon. Because of the shortage of shipping, it was contemplated that the total programs of imports thus made would be balanced against the total available shipping and necessary adjustments made to bring the requirements, if possible, within the carrying power of the ships.

Pursuant to the action of the Paris Conference quoted above, the Allied Maritime Transport Council was formed in February, 1918. Its chairman, while sitting in England, was Lord Robert Cecil, and while sitting in France, M. Etienne Clementel. As rapidly as possible thereafter, program committees, covering the whole range of imported commodities, were constituted, an existing committee being used if one had theretofore been organized.

The way it worked in practice was something like this: Italy would come in and say: "We need so much coal." France would say: "Italy doesn't need that much coal." You see, if Italy got all the coal she wanted, France would not get all she wanted. France would then say how much coal she wanted. Italy would say: "France doesn't need that much coal." Then the committee would balance all those claims, one against the other, adjusting the differences, just as you would adjust differences in the ordinary affairs of life, but starting out with the realization that the essential thing was to first get the facts. Instead of dealing at arm's length through the usual diplomatic channels, an expert from each government would be in a position to criticize the demands of the other governments, and, in turn, to receive their criticism. Many of the misunderstandings which resulted from incomplete facts were avoided. When the detailed program was agreed upon, a government was better able to curtail its requirements because of accurate knowledge of the sacrifices made by the other governments.

It was never contemplated that the Allied Maritime Trans-

port Council should control the various program committees. Inasmuch, however, as ships were the limiting factor, it was essential that, when the various committees had reduced their programs so far as in their judgment seemed possible, there should be further reduction if the total programs exceeded the amount of transport available. This resulted in the Allied Maritime Transport Council receiving the programs of all the program committees and making adjustments to bring the supplies within the carrying capacity of the ships. Moreover, it was not only the programs of the Allied countries that were dealt with. By means of control of the sources of supply, a very real control was exercised over neutrals. An effort was made to ascertain their needs and to see that those needs were supplied as equitably as possible, having in view the world shortage and the conflicting needs of Allies and of other neutrals.

It must be borne in mind that the representatives of the various governments on the Program Committees or the Allied Maritime Transport Council did not have power finally to bind their respective governments. To have given them such a power would have enabled them to control absolutely the economic order of the world. Even under the pressure of war, the governments were not willing to confer such a power upon a representative on an international board, on which he might be outvoted. The decisions as to what should be imported, where it should be imported from, and what ships should be used to carry the imports, were all, however, decisions which depended largely upon the facts. The finding of the fact, therefore, if correctly presented, tended more and more to make the decision. Many newspaper references to the Allied Maritime Transport Council and the Program Committees, and some books and magazine articles, have given the impression that they were international bodies *controlling* the vital supplies of life. This is not accurate. The control was a *national* control, dependent upon control of sources of supply and of shipping, embargoes on imports, the control of bunkering privileges and any other measure which any of the governments had put into force during the war. The *international* bodies referred to above were fact-finding bodies, meeting for international counsel in order to determine by

unanimous agreement how the various national controls should best be exercised in order to win the war. Each government settled its own problems, but its manner of exercising its control was greatly affected—especially in the European countries which had been longer in the war—by the findings of the Program Committees and the Allied Maritime Transport Council.

After the programs were agreed upon by the several governments, they could be carried out severally or by a common executive as the exigencies of each case might require. These executives were located at the point where they could operate most efficiently. Prior to our entry into the war, most of these executives were located in London. The Nitrate Executive, however, was located in Washington and when the war closed, an arrangement already had been made by which the Hides and Leather Executive should be transferred to Washington. It is probable that if the war had lasted much longer the Food Executive also would have been transferred to Washington.

To illustrate the wide range of subjects covered by these Inter-Allied bodies a few cases may be cited. Prior to the war wheat from India went through the Mediterranean to England, passing on the way wheat going from the United States to Italy. Under the Wheat Executive and the Program Committees, wheat from India stopped at Italy and the corresponding amount of wheat that would have gone from America to Italy went to England or France. This was not only a saving of ships but an avoidance of an unnecessary submarine risk in the dangerous western Mediterranean. England's oil-supply had come in very large quantity from the oil-fields of the Orient, in which her merchants had an interest, especially from Burma, Borneo and Sumatra. American oil companies had built up a large market in China and were carrying oil from the Atlantic seaboard to China. A re-routing, which was about to go into operation when the armistice was signed, was arranged through the Petroleum Conference, by which the American oil should go to England and the oil from the Far Eastern points should go to China. Early in 1918, Italy was desperately short of coal. Through the Allied Maritime Transport Council an arrangement was made by which coal was sent from southern France to Italy, partly

by an all-rail route and partly by rail to Marseilles and then by ship to Italy. To take care of the coal needs of France, which would have been seriously imperiled by this diversion of coal to Italy, large shipments of Cardiff coal were sent across the Channel to the northern French ports. The March 21st drive of the Germans precipitated a very serious coal question. The principal coal-supply of France was in what is called the Pas de Calais district. The German military success not only reduced the output of the mines in this district, but—what was more serious—prevented the carrying of coal from this district to the south of France because of the interruption of traffic on the main railway line to the south. An arrangement was, therefore, made by which the English army satisfied its coal needs from the French coal-mines in the northern district, and English coal was sent by ships to the more southerly ports of France to take the place of the coal which otherwise would have come from the Pas de Calais district. The whole theory of the Allied Maritime Transport Council was that, because of the pressure of war upon material and man power, it was the duty of all the states fighting against Germany to ascertain what were the paramount war needs and how those needs could be satisfied by the least consumption of material and the least waste of man power. It was really a world-wide application of the doctrine of "Goods and Services" which the War Savings Committees in both England and the United States have made familiar to millions of people.

When one examines carefully the structure of the Inter-Allied committees which the war forced upon the United States, Great Britain, France and Italy, certain results stand out which may well be remembered:

(1) Even when the Allies were fighting for their lives it was not possible—nor was it deemed desirable—to bring about any arrangement by which their resources could be merged under a single control.

(2) As long as the Allies had the strong common purpose of winning the war the questions about which they differed were largely questions of fact. Inter-Allied bodies to ascertain the facts were, therefore, of the greatest value in securing intelligent and united action by the responsible authorities.

(3) A permanent secretariat with members from all of the states concerned whose business it was to get the facts and collate them for responsible ministers in close touch with the home governments, was found to be an effective way of getting ready acceptance by the governments of a common plan of action.

The plan which I have outlined was a frank recognition of the fact that the separate Allies were separate states—that they could not merge their state management. They were forced to rely upon frank exchange of facts as the basis of cooperation. The principle that they adopted was really the principle of unanimous agreement. It is important to remember that for the last year and a half of the war it was upon the principle of unanimous agreement that the economic side of the war was waged; and I do not think it is any exaggeration to say that that was the only period during the war that any real cooperation, from the economic point of view, was attained.

Lord Robert Cecil was the chairman of the Allied Maritime Transport Council. He worked on international cooperation for eighteen months. It is not too much to say that he had more to do with the economic cooperation of the Allies during the last eighteen months of the war than any other living man. So far as he has had any influence in the preparation of the proposed Covenant for the League of Nations—and I judge from the newspaper reports that he has had considerable influence—I think he has used that influence to keep the Covenant from calling upon the states of the world to promise more than they could be expected to perform.

If international good faith is to be promoted in the world, if the plighted word of a nation is to remain a sacred thing, it is very important that nations should not promise more than they may reasonably be expected to perform. Moreover, a slight promise may tend to keep the peace much more than an onerous promise. Just about a year ago one of the leading statesmen of Great Britain said to me: "I want to see a League of Nations in which the promises which each nation makes are so slight that no Prime Minister would dare break the promise for fear of affronting the moral forces of his own country." That is a sound principle. The stronger you make the promises the easier it is for the leader of a nation to break

them. If a nation promises to go and talk difficulties over before fighting, it is likely to do it. If, however, it agrees to abide by a majority vote it is very easy for a leader to say that the cards are stacked against him, that if he goes to the meeting he will be out-voted, and that it will be national suicide to attend. Many responsible statesmen in Europe think that if we had had a secretary of The Hague Conference, this war would not have occurred. If a permanent secretary had extended the invitation for a conference which Lord Grey extended, it would have been hard for Germany to decline. We might well have had another war later on, when Germany believed herself strong enough to beat England, but it is possible that we might have avoided this war at this time. That opinion may or may not be correct. The French have always felt that if there had been anybody in Great Britain able to say that she would go in on the side of the Entente, the war would have been avoided. But whether or no that be correct, the principle is sound that you must not make promises beyond those that a nation is ready to perform.

The rule of unanimity of action—which has been criticised as a rule which renders the whole scheme impracticable—runs all through this Covenant. There are certain exceptions, to which doubtless other speakers will call your attention. The unanimity rule comes from The Hague Conferences, it comes from the experience of cooperation during the war. It is a recognition of the strong national aims of all the states, it is a recognition of the fact that practically every state in the world considers its most important problem to be to preserve justice and peace within its own borders and work out its own national problems. No state wants to give up the right to run its own affairs. I have heard many people talk in this country as though the European nations wanted to create a world-state in order to secure America's strength. Why, my friends, the national feeling of the states of Europe is just as strong as our own national feeling. In fact, until this war came, most students of history would have told you that it was much stronger, based upon the fact that we are made up of so many races. When you hear people say that they want a world-state, when they say that they want to spread a government like ours over the whole earth, ask them what is to be the relation of

the central government to the local government. Who is to govern the governors?

Will such a world-state ever come? Perhaps some day! But it will come when majorities and minorities are so sympathetic that the minority will assent to the majority from conviction rather than from fear. If the minority submits to the majority only through fear, it is a peace of force as much as was the Roman peace. We can't get away from the fact that this whole problem goes back to human nature. We have been a great many thousands of years building up the kind of states we have got, states in which it is roughly true that the minority assent to the majority, because they have enough in common with the majority to desire to be ruled by a majority vote. It is not an easy thing for men to cooperate with each other. It is not a very easy thing for President Wilson to cooperate with the Senate, or for the Senate to cooperate with President Wilson. How much more difficult it would be for either of them to cooperate with the Chinese!

Now, I think I have almost used up my time. I should like to talk to you about Article X and about the Monroe Doctrine, but that is not in my topic. Most people have talked or written about Article X as an absolute guarantee of boundaries. I do not so read it. It is not an unqualified guarantee of boundaries, it is a guarantee against *external aggression*. I hope that during the rest of this discussion some consideration will be given not only to the word "external" but also to the word "aggression." I also hope that there will be some discussion today of the Monroe Doctrine. When we finally make up our mind what we want to do about the Monroe Doctrine, I hope we will feel sure enough of the rightness of our rights to be willing to discuss the matter with other people. I look upon the Monroe Doctrine as fundamentally a great problem of national defense. Other nations have similar problems. Italy has her Fiume problem. For over a hundred years England looked upon the non-fortification of Dunkirk as a problem of her national defense. There are certain problems of this general type that nations at the present stage of the world's opinion may feel that they have to decide for themselves. Even if they take that position, however, they ought to be sure enough of the rightness of their rights to be willing to delay a bit while

they talk such problems over with their neighbors. With men, as with children, it is a good thing when angry to count one hundred. I, myself feel that no nation is big enough, or strong enough, or perfect enough, to justify a policy of declining to talk over its differences with other nations before it fights.

I hope the Covenant will be adopted. I hope it will be adopted because of the little that it attempts to do. I hope it will be adopted because it is in essence a reorganized Hague Conference, with regular meetings, and a permanent secretariat, and powers largely advisory.

I should be very glad to see an interpretive declaration adopted by the Senate—not a conditional acceptance—but an interpretive declaration of what America understands the document to mean. If there is any senator who thinks that a world-state is created, I should like to see in that interpretive declaration a statement that there is no intention of creating a world-state. I should hope that the President and the United States Senate might be able to agree upon the exact terms of such an interpretive declaration. If we are looking forward to a new world with everybody cooperating with everybody else, I should like to see us try first whether we can get some close cooperation between the President and the United States Senate. Without criticising either of them, I take the liberty of suggesting that neither side has as yet done enough along this line.

In this talk I have tried to keep within my topic. As some of you may know, I have ventured to set out more fully in another place some thoughts upon the meaning of the Covenant and the purposes aimed at by its draftsmen.¹ I am conscious that today I have touched only upon one phase of the subject. I am conscious that some of those who are to speak after me will disagree with what I have said. I quite understand that many people look upon this Covenant as a coercive document and fear that as a result of coercion very dire things will fall upon this country. I have no quarrel with such people. There are many men of many minds in the world; there are many men of many minds in this country of ours.

¹ *The Society of Free States*, by Dwight W. Morrow. Harper & Brothers, N. Y., 1919.

I see very little that is coercive in the Covenant, and that little is so hedged about with restrictions that I think the main reliance that can be put upon this Covenant to reduce the possibility of war must be in the fact that it will create a great clearing house through which accurate information may be obtained. It is easy, however, to see in the same words very many different things. For that reason I think we cannot have too much public debate as to the purposes and effect of this proposed new international arrangement. I was asked the other day to sign a paper urging the Senate to adopt the Covenant promptly. I was unwilling to sign such a paper. I do not want to add even the small influence of a single man to shutting off any debate upon this important document. I think it is vital that the people of the United States should understand their international obligations.

One thing we may all agree upon. The motives of the proponents or opponents of the Covenant are of very little importance. Surely, it is the duty of all reasonable men to avoid the assumption that those on the other side have motives less disinterested than their own. What does it avail to say that the President is promoting the League in order to become president of the world? Is it not equally bootless to accuse members of the United States Senate of opposing the Covenant from partisan motives? Whatever may be true of other races, the Anglo-Saxon race has not yet found any method of discovering political truth or error that compares with courteous controversy in public. By all means, then, let us have the fullest discussion in the United States Senate, in the press, in the pulpit, in the schools and in all public meeting places. The temper of that discussion will be a great test of our capacity as a self-governing people. Will we be able to keep in mind the advice of Alexander Hamilton, in the first number of the *Federalist*? "In politics, as in religion, it is equally absurd to aim at making proselytes by fire and sword. Heresies in either can rarely be cured by persecution."

THE POTENTIALITIES AND SIGNIFICANCE OF THE LEAGUE OF NATIONS COVENANT

KEY PITTMAN

U. S. Senator from Nevada

THE distinguished chairman of this meeting, Dr. Nicholas Murray Butler, in his statement to the effect that, while he hopes that the covenant of the league of nations will be adopted, he would have written a very much different instrument had he been intrusted with the responsibility, suggests to my mind a very pertinent thought. It is but natural that statesmen should differ not only with regard to the expression of an idea, but as to the plan and procedure involving any revolutionary undertaking. Such was the experience of the framers of our Constitution. Benjamin Franklin, near the close of our Constitutional Convention of 1787, read a statement expressing his views with regard to the adoption of the Constitution. He then said, in part—

In these sentiments, sir, I agree to this Constitution, with all its faults, if they are such; because I think a general government necessary for us, and there is no form of government but what may be a blessing to the people if well administered; . . . I doubt, too, whether any other convention we can obtain may be able to make a better Constitution. For, when you assemble a number of men to have the advantage of their joint wisdom, you inevitably assemble with those men all their prejudices, their passions, their errors of opinion, their local interests, and their selfish views. From such an assembly can a perfect production be expected?

This, undoubtedly, expresses the thoughts of many of the framers of the covenant of the league of nations and of the members of the United States Senate who will be called upon to ratify the treaty that embraces the covenant.

How much more difficult it must have been to bring about a unanimous agreement between the members of the peace conference composed of many different races, speaking different languages, raised in different environments, and trained in different schools of thought. Even in our own Congress, notwithstanding a grave demand and most serious effort to pass a law

for the development of our mineral resources, we have, during a period of four years, found it impossible to draft a bill that would meet with the approval of a sufficient number of United States senators to insure its enactment. It is remarkable that the peace conference was able to draft any covenant that could meet the unanimous approval of that peculiarly constituted body. There can be little doubt that the covenant in its present form is the most definite and reasonable agreement that can be reached.

There are three kinds of leagues of nations that have been under consideration by statesmen throughout the world, and very probably by the peace conference. The plans of these leagues of nations differ chiefly in the power that may be exerted to compel compliance with their covenants. They may be designated as the conservative, the radical, and the compromise plans.

The conservative plan carries with it no power of enforcement other than public sentiment. It means little more than the adoption of our present arbitration treaties by the peace conference. Under this plan, as under our present arbitration treaties, any nation may decline to arbitrate without bringing upon it any punishment by other nations. Under the exceptions and reservations included in all such treaties, for instance, that a nation is not required to arbitrate matters affecting its "honor" or its "vital interests", any nation may find an excuse to avoid the purpose of the treaty. In other words, the matter of arbitration is entirely optional with the contracting parties, and either party to the contract may withdraw under these broad exceptions and reservations. While these treaties have accomplished good and have been the means of settling many disputes of minor consequence, they have no binding effect upon any nation which seeks war and in these cases are not only useless but deceptive.

The radical plan proposes the enforcement of the provisions of the covenant by armaments under the direct control of a league of nations. This plan was favored by many of the French statesmen and probably by the delegates of the French Republic at the peace conference. Under this plan a power would have been created which would have had many of the attributes of government and might have, with much reason, been characterized as a supergovernment.

The compromise plan, while denying the right to the league to raise armies and control and direct armaments, except with unanimous consent of all of the governments, does provide for the enforcement of the terms of the covenant through the combined moral, commercial, and economic forces of the governments that are members of the league. The covenant adopted by the peace conference embodies and exemplifies the compromise plan.

In view of the wide divergence of opinion, is it not wonderful that any compromise plan could have been agreed upon? And is it not dangerous to open up again the whole matter for discussion, reconsideration, and further action by a peace conference? At the time that the covenant of the league of nations was adopted the consciences of nations, chastened by the horrors of war, were ready to make concessions for peace, but as time goes on these sentiments may be supplanted by the ambitions of the victor.

Any amendment by the United States Senate would result in a rejection of the treaty by us and compel the reopening of negotiations, unless the other nations involved should ignore the action of the United States and proceed to ratify the treaty in its present form. In that event we would be isolated from our present allies and forced to make a separate peace with our enemies. The so-called right of amendment of the treaty by the United States Senate is a misnomer. The sole authority of the Senate, under the Constitution, is to advise and consent to the adoption of the treaty.

It may, of course, after rejecting the treaty by amendment, represent to the President of the United States and the other authorized negotiators of treaties that two-thirds of the Senate will approve a treaty in a certain form if entered into by the respective governments. The act of the Senate in adopting amendments would, nevertheless, have the same effect as the direct rejection of the treaty. It must be apparent, not only to United States senators but to all well-informed men and women who have given the matter consideration, that the other nations who have suffered more than we have through this war, and who have joined so sincerely with us in arriving at the present treaty, will hardly tolerate further delay by reason of hypercritical objections to matters which must have been most thoroughly and painfully worked out.

There are, in my opinion, but two questions to be determined by each senator in reaching a conclusion as to whether he will vote for the approval or the rejection of the treaty, namely, first, is the treaty fair and honorable and does it make for peace in the world; second, is it so injurious or dangerous to the vital interests of our country that, notwithstanding the good it may accomplish for peace, he is not justified in approving it?

In discussing the potentialities of the covenant of the league of nations, I will devote my argument principally to its powers with relation to our own sovereignty and governmental policies. I presume that all statesmen agree that concerted action of nations is essential to world peace, and that such action must be supported by effective powers. Of course, I do not assume to commit partisan politicians or those political economists who believe, or argue, that the United States can be isolated from the rest of the world. This theory of national isolation is an ancient Chinese doctrine that has not brought to China the progress and prosperity that we seek for our country.

The conditions existing in the early history of our government might have given some foundation for an argument for national isolation. We did not then possess the power or influence to be a determining factor in international action and intercourse. We were then desperately using every energy of mind and body to establish firmly and maintain a democracy in the midst of world autocracy, and in the presence of the opposition of jealous and fearful rulers of other governments and skeptical, timid, and disloyal residents within our own country.

Revolutionary changes have taken place since those days. The products of our mines, our fields, and our factories have grown beyond the demands of our own people. Our progress and prosperity require that we compete in the markets of the world. We stand as the richest nation on earth. We have advanced and are advancing with greater strides than any other people. Since the World War commenced we have jumped from the position of fourth to that of second place in world shipping. Our citizens are carrying the freedom of their institutions, the energy of their industry, and the skill of their accomplishments to every country where any other free man is permitted to tread. It is our duty to encourage and protect our people in these great undertakings, and this can only be

accomplished through the agreement and concerted action of all civilized nations. The covenant of the league of nations is such an agreement.

The progress, the peace, and the happiness of every nation must inevitably be affected by the conditions existing in other nations. The time has arrived when the intercourse and affairs of nations have become so intimate and intricate, through the remarkable facilities for transportation and communication, that a far greater cooperation is imperative.

We can not escape the effects of the vital actions of other nations. To the mind of the thoughtful man the recent World War has demonstrated this beyond argument. Who, five years ago, would have imagined that the assassination of an Austrian prince, by a lowly Serbian subject of Austria in a remote section of Europe, could involve our country and practically the whole world in the most disastrous war that has ever cursed humanity? Certainly there is no patriotic, intelligent citizen who believes or would argue that we could have avoided being dragged into this war. Then how can we hope to escape future foreign wars that may be nearer to our country? So, apparently being unable to isolate our nation from the effects of foreign wars, it is our sacred duty to do everything in our power to eliminate war.

This beneficent consummation has been sought by our statesmen for many years. They have earnestly attempted through treaties of arbitration to accomplish the determination of rights and the reparation for wrongs through instrumentalities of justice rather than by the force of arms. Numerous treaties have been entered into by us with various nations, and between other nations, providing for the arbitration of disputes that might lead to war. And yet, when this great war was threatened, civilized nations found themselves without authority under any of these treaties to interpose in behalf of the peace of the world. That must never happen again.

Had the covenant of the league of nations been in force in July, 1914, Austria would not have declared war upon Serbia, and the most brutal, un-Christian, and disastrous catastrophe that the world has ever known would have been spared to humanity.

Serbia, after making full reply to the Austrian ultimatum
[377]

and after humbly apologizing and offering every honorable reparation, proposed that—

In case the Austro-Hungarian Government should not consider itself satisfied with the answer, it is ready, as always, to accept a peaceful solution, either by referring the decision of the question to the international tribunal at The Hague or by leaving it to the great powers who cooperated in the preparation of the explanation given by the Serbian Government on the 17th-31st March, 1909.

England, France, and Russia, in the interest of world peace, urged Austria to accept Serbia's proposal. Austria, spurred on by Germany, declined, and the rest of the world was powerless even to defer the impending disaster. This conclusively demonstrated the inefficacy in such cases of all of the efforts of the past and the inefficiency of the peace instrumentalities that had been provided.

Under the provisions of articles 12 and 15 of the covenant of the league of nations Serbia would have proposed to submit the matter to arbitration or to inquiry by the council of the league of nations. Austria would have been compelled to submit either to arbitration under article 13 or an investigation, inquiry, and recommendation by the council or the assembly under article 15, and in any event to desist from "war until three months after the award by the arbitrators or the report by the council." Serbia would undoubtedly then have taken advantage of that part of article 15 which provides:

That they [which would include Austria] will not go to war with any party to the dispute which complies with the recommendations of the report.

Serbia would have complied with any recommendation.

A portion of the penalty provided in article 16 and which would have applied to Austria under article 17 is as follows:

Should any member of the league resort to war in disregard of its covenants under articles 12, 13, or 15 it shall *ipso facto* be deemed to have committed an act of war against all other members of the league, which hereby undertakes immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a member of the league or not.

It shall be the duty of the council in such case to recommend to the several Governments concerned what effective military or naval forces the members of the league shall severally contribute to the armaments of forces to be used to protect the covenants of the league.

Does any one doubt that in such circumstances Germany would have desisted from its instigations and Austria would have refrained from war?

I have taken this concrete case, so fresh in our minds, for the purpose of illustrating my analysis of the potentiality of the covenant of the league of nations in the enforcement of peace. We can not conceive that a more difficult situation threatening the peace of the world could ever arise to test the efficiency of the league.

The covenant of the league of nations chiefly depends for its effectiveness on that portion of article 16 which I have just quoted, and while there may be those who will scout the influence of the combined moral, commercial, and economic forces of nations, students of history recognize that it is rapidly becoming the dominant power for peace and justice on earth. No nation can stand in the face of the public condemnation and ostracism of the world.

But the chief attacks made in the United States upon the covenant of the league of nations are not based upon its lack of power to prevent or defer war, but upon the alleged grant to the league of jurisdiction and power to interfere with the vital interests of our government.

What are the vital interests that we submit to the league of nations under the covenant? There is not contained in the document a single prohibition or limitation upon our right to defend our own territory or our citizens against attack. Our domestic affairs and our Monroe Doctrine are expressly excluded from the jurisdiction of the league. It is granted no control over our Army or our Navy. It is granted no power to fix or determine our armaments, but only the authority to recommend a plan looking to the reduction of armaments in all nations. The adoption or rejection of any proposed plan would be exclusively within the authority of our Congress under the express terms of the covenant. It has no authority other than that expressly conferred upon it by the covenant. It is purely a creature and agent of the contracting govern-

ments. Members of the league are only obligated to submit to arbitration, under article 14, "disputes as to the interpretation of a treaty, as to any question of international law, as to the existence of any fact which if established would constitute a breach of international obligation, or as to the extent and nature of the reparation to be made for any such breach." There are no other requirements in the covenant as to arbitration. Such action would only involve the adjudication of the terms of a contract or the measure of damages for a proven wrong. Our government has long favored such arbitrations. It is committed to the policy. Beyond these questions there is no provision for compulsory arbitration. Have our people such passion for war that they would refuse to submit such disputes to arbitration when their continued existence threatened us with war and endangered the peace of the world?

If disputes arise that are not subject to arbitration, then the matter shall be submitted under articles 12 and 15 to the league for inquiry, report, and recommendation. What, then, is the result and effect of such submission? If a report is adopted by a unanimous vote, then the recommendations are submitted to the disputants. If both accept, the matter, of course, is settled. If neither accepts the recommendations, then both are free to pursue their own course. If only one of the disputants accepts the recommendations, then the other is only bound to the extent that it shall not go to war.

If our nation in any case were adjudged to be in the wrong it would still have the privilege of breaking off all relations. It would still have the right to treat the opposing nation as unfriendly and visit upon it every power of isolation and ostracism that it could command. And let us keep in mind that this adjudication requires the unanimous vote of every member of the league except the representatives of the disputants. It is true that the matter may be referred to the assembly, but in this case it requires a unanimous vote of the assembly, which, of course, includes the members of the council.

And, again, let it be distinctly remembered that incorporated in the provisions of this article 12, the effects of which I have been analyzing, we find this express exception of jurisdiction and limitation of authority. I quote:

If the dispute between the parties is claimed by one of them, and is found by the council to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the council shall so report and shall make no recommendation as to its settlement.

This section was the subject of broad discussion and interpretation at the peace conference by those who will constitute the council and the assembly of the league of nations. The Japanese representatives contended that under the construction of such paragraph governments such as the United States, Canada, and Australia, could continue to cast upon the Japanese race the alleged stigma of inequality by excluding them from their shores under their immigration laws. The peace conference recognized that the question of immigration is a domestic question, and it, therefore, refused to adopt the amendment offered by the Japanese representatives in attempting to change the paragraph in this effect.

We only limit Japanese immigration through a gentleman's agreement with Japan, while Canada and Australia have long had upon their statute books stringent Japanese exclusion acts.

The protection of our domestic jurisdiction is of vital importance to us. So is the protection of the domestic jurisdiction of Canada and Australia equally vital to those countries. It is but natural that every nation should be jealous of its domestic jurisdiction, and in this we find conclusive assurance against interference by the league with matters within the domestic jurisdiction of our own nation. So the maximum restraint upon our sovereignty would be that, upon the unanimous verdict of the world, we would have to refrain from war.

Should we desire to go to war against the unanimous verdict of the world?

Could we hope to win a war against the unanimous disapproval of the world?

Is this so dangerous a covenant that we should be willing to endure militarism rather than submit to it?

Can we conceive of any plan for peaceful settlement of disputes that so little affects our sovereignty?

If we, the leader of democracy, the most ardent advocate of peace, and the bitterest opponents of militarism, are unwilling to submit such international disputes, equally with all other civilized nations, to the unanimous verdict of the world, then, indeed, all is hopeless.

Hardly had these smoke screens, under which pessimistic and hopeless statesmen of the order of national isolation and militarism attacked the covenant of peace, been cleared away by the unalterable construction of the peace conference, before these same statesmen had shifted their attack to the effect of the covenant of the league upon our sacred Monroe Doctrine. They contend that under article 10 of the covenant, which reads as follows:

The members of the league undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all members of the league—

the league has usurped our authority to protect the Republics on the American continent to the south from external aggression against the territorial and existing political independence of those countries. They seem to fail to see—at least, they are unwilling to admit—that such declaration of article 10 is but a confirmation of our Monroe Doctrine with regard to the Republics of the American continent extended and applied to all the nations of the earth. They, with all of the citizens of our country, should have rejoiced that the principles pronounced by President Monroe on behalf of this country as applying to South and Central America, should have been recognized and approved by all the civilized nations of the world.

It was the national militaristic attitude of the world that forced our pronouncement of the Monroe Doctrine. It was the knowledge that under the old order of things conquests by nations of other races and governments were deemed justifiable in aid of national expansion, glory, and power that made the Monroe Doctrine imperative. The Monroe Doctrine was the expression of a high principle and was essential to our protection against existing conditions, but it was a terrible burden that constantly grew more threatening. It was not recognized by other governments until the adoption of the covenant of the league of nations as an international principle or doctrine, and its authority was challenged on more than one occasion by powerful nations. It had no support in the world until reënnounced and adopted in the covenant of the league of nations, except the power of our own government and the determination of our people to go to war in its defense. But that the suspi-

cions and palsying fear of these statesmen might be forever allayed, in article 21 of the revised draft of the covenant it is expressly provided that—

Nothing in this covenant shall be deemed to affect the validity of international engagements, such as treaties of arbitration or regional understandings like the Monroe Doctrine for securing the maintenance of peace.

The purpose in adding this provision in the revised covenant was that there might be no doubt as to the exclusion of the Monroe Doctrine from the effect of the treaty. It is not subject to any other reasonable construction. Yet the distinguished senator from Massachusetts (Mr. Lodge), who is leading the Republican phalanx in the Senate against "advising and consenting" to the treaty with the covenant of the league of nations therein, boldly proclaims that the validity of the Monroe Doctrine is not recognized or protected by such provision. He says that the Monroe Doctrine is not a "regional understanding". What difference does it make what the Monroe Doctrine is when it is expressly excluded from the effect of the treaty by name? The peace conference has seen fit to decide that the Monroe Doctrine is a regional understanding. If Alaska were excluded from the effect of the covenant, it would be immaterial whether it was designated as the "District of Alaska" or the "Territory of Alaska". There might be a difference of opinion as to whether "District" or "Territory" better described the political character of Alaska, but there would still remain no doubt as to what was meant by "Alaska".

And again they contend, with apparent seriousness and intensity of argument, that the words "for securing the maintenance of peace" found at the end of article 21 will enable the league to pass upon whether or not the Monroe doctrine is for "securing the maintenance of peace". In other words, they are attempting to convince the people of the United States that, by reason of such words, the league has the jurisdiction and power to hold that the Monroe Doctrine is not for the purpose of securing the maintenance of peace, and, therefore, is not excluded under article 21 from the effect of the treaty. It is apparent from a most casual reading of the article that the Monroe Doctrine is set up as an example of the kind of regional understandings that will be excluded from the effect of the

treaty. It says plainly and means that other regional understandings for securing the maintenance of peace "like the Monroe Doctrine" shall not be affected by the treaty. The article recognizes that the Monroe Doctrine is for securing the maintenance of peace, and it not only expressly excludes the Monroe Doctrine from the effect of the treaty but all other regional understandings like the Monroe Doctrine. Let the American people read article 21, and I am satisfied that they will consider the arguments of these distinguished senators as an insult to their intelligence and common sense. It exposes the character of argument to which these bitter opponents of the covenant in their desperation are driven and destroys their influence at home and abroad.

While there are still some attacks being made with regard to these provisions, in a heated and demagogic manner, the opponents of broader statesmanship are attacking the covenant upon the fundamental theory that it creates a supergovernment and destroys our nationalism. In support of this contention they quote that portion of article 10, which provides—

In case of any such aggression, or in case of any threat or danger of such aggression, the council shall advise upon the means by which this obligation shall be fulfilled.

And, again, they refer to that paragraph of article 4, which states—

The council may deal at its meetings with any matter within the sphere of action of the league or affecting the peace of the world.

The word "deal" in this case must be synonymous with "consider and recommend". It grants no more authority than the "power to advise" provided in article 10. There is no provision for the enforcement of this advice or their decision with regard to the matters with which they may deal. The only force provided in the entire covenant and agreed upon is the commercial, financial, and moral blockade provided in article 16. The only physical force considered in the covenant is set forth in article 17, as follows:

It shall be the duty of the council in such case to recommend to the several governments concerned what effective military or naval forces the members of the league shall severally contribute to the armaments of forces to be used to protect the covenant of the league.

It does not say recommend to the membership of the league, but "recommend to the several governments". In other words, it was intended, and its effect is, that it remains with the Congress of the United States to accept or reject any such "recommendations". What, then, becomes of the bold, heated, and impassioned declamation of the opponents of the covenant when they ask the mothers of the country if they wish to place in the power of the league of nations the right to send their boys as soldiers to fight in the far corners of the earth? There is no provision in the covenant that can be tortured into such construction. There is no provision in the covenant that grants the league of nations any jurisdiction or control over our Army or our Navy or our soldiers. No vital act may be done by the league of nations without our vote, because it requires a unanimous vote, except as to matters of disputes in which we are involved, and I have shown that as to those matters no action may be taken that could vitally effect the interest of our government.

The supporters of the covenant of the league are ardent in their efforts for a great nationalism, and it is for such reason that they are striving so intensely to maintain the position and influence of the United States among the nations of the world. It would be unfortunate, indeed, if our nationalism were only supported by those few statesmen who arrogate to themselves the only Americanism.

In my opinion, there can be no great nationalism isolated from internationalism. One of the great purposes of the covenant is the establishment and maintenance of nationalism. It is taking small, subservient races and making independent nations of them. It is making a nation of Poland. It is making a nation of Czechoslovakia. It is making a nation of Jugo-Slovenia. And their nationalism shall be sustained through the united action of the old and established nations of the earth under the covenant of the league of nations. And the adoption of these underlying and dominant principles will establish and maintain the national independence of every subservient race.

THE OBJECTIONS TO THE LEAGUE OF NATIONS COVENANT

GEORGE WHARTON PEPPER

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American Independence

IT'S a refreshing thing from time to time to see one's self as one is seen by others. I followed very closely the most interesting remarks of the preceding speaker.¹ I am forced to the conclusion that I must run true to form this morning and appear in the role of a dyspeptic pessimist, whose outlook on life is dreary and hopeless, whose attitude toward international questions must be dominated by haunting fear and suspicion; and that the manner in which I must address myself to my task should be that of impassioned oratory as distinguished from that calm and careful and logical analysis which characterized the address of my friend, the Senator.

There are two things which I should like to have suppressed. One is the fact that I come from Philadelphia, and the other that I am a lawyer; because it is not well to be advertised as a provincial when you are going to address a metropolitan audience, and somehow or other there is a perfectly natural and proper suspicion respecting the point of view of the lawyer. But I suppose that even if the chairman had omitted to mention the fact of my profession, it might have leaked out, because a lawyer can seldom conceal his habits of thought and avoid wearying even a patient audience.

Now we Americans have found it quite impossible to refrain from thinking about and talking about the international settlements that are being made for us and for the world by our representatives abroad. But it is most unsatisfactory and just a bit undignified to have to discuss the terms of important written documents unless their full text is before us. We are told, and no doubt it is true, that the Covenant of the League of Nations and the Treaty of Peace are inextricably interwoven. If so, they constitute one document. The consider-

¹ Senator Pittman whose address appears on page 273.

ation of the whole is necessary before one can give any final expression of opinion respecting the effect of any one of the parts. And I think, for one, that there is something illogical in the publication of the full text of the Covenant of the League and the withholding, no doubt for excellent reasons of which we are not informed, of the text of the rest of the Treaty. I do not mean to criticise the withholding of the Treaty. I do not know enough about the situation to know whether it is wise or not. Senator Hitchcock stated in the Senate yesterday that there are fourteen nations which have been furnished with copies, and while perhaps it is too much to expect that we should be placed on a par with Germany when it comes to a distribution of favors, I think the United States must at least be included in the first fourteen.

While we may not be able to give final expressions of opinion until we have analyzed the whole document, we can do a little in the interest of clear thinking if we distinguish between two severable types of a league of nations, find out to which type the Covenant of the League contained in the Treaty conforms and then ask ourselves whether it is a creditable document of the type with which we class it.

There are, in fact, two perfectly distinct views respecting a league of nations. I pass over the view of those vigorous-minded people who are of opinion that a league of nations in any form is to be repudiated. There are those who hold that a nation can best play its part in the drama of life if it is absolutely unhampered and uncommitted in advance by covenant or treaty obligation on any large and general scale. Such people point to the fact that when we went into the war and came to the relief of the Allies, we went in, not because we promised to go, or because we were ordered by an international tribunal to go, but we went, impelled by a combination of conviction and self-interest which proved irresistible; and they say that our coming was all the more effective because it was spontaneous. Passing over this view, I suggest that in the interest of clear thinking we should distinguish between two different types of a league of nations.

One is a league or society of nations functioning through an international council without power to commit a nation to any particular course of action, but with large authority

to recommend and advise, to proceed according to the method of conference and conciliation, to turn the pitiless ray of publicity upon international business as we turn it now upon the business of great corporations in our own country, to substitute the method of approach and conference for secret and exclusive diplomacy, to lay large stress upon the orderly determination of judicial and justiciable questions by a tribunal suitable for their decision, and, therefore, to set up a high court of international justice with a compulsory jurisdiction to pass upon all international questions suitable for judicial decision.

Now that is a perfectly clean-cut and definite conception of a league of nations. I am glad to announce myself without reserve as favorable to a league of that type. I confess to very great curiosity respecting the draft of a league of nations which Mr. Wilson proposed to the Conference in Paris and which on the second day was thrown into the discard in favor of a league of the second type, which I shall presently discuss. I believe that it is not very hazardous to predict that when that draft is finally drawn from the reluctant maw of the State Department, it will be found to conform in essential particulars to the type of league which I have outlined as one with which I am in hearty acquiescence and approval.

Then, there is an entirely different kind of league. I am not going to try to coerce your independent thought into the acceptance of any particular view of mine. All that I can do is to put certain lines of thought before you and leave you to follow them out for yourselves to a wiser conclusion than I am capable of reaching. A league of this second type is advocated by those who believe that a nation can be most useful to the world when it is built into the structure of a larger governmental concern somewhat as a kingdom is built into the structure of an empire. Such a league involves the delegation of that thing called sovereignty,—which, in the case of the individual, is free will or the power of self-determination and confers upon that central body the authority to make binding decisions in the great emergencies of history; which decisions do not concern a particular subject-matter of dispute, which the parties agree to leave to chosen arbitrators, but all the unknown and as yet unidentified questions which can arise

between nation and nation. The decision of these is left to the central organization, and member states agree in advance to be bound by its decision.

You will perceive at once two things: First, that nothing that I have said raises a presumption for or against either of these types of league in preference to the other. Second, that there is a perfectly clean-cut and definite distinction between them; and that it is only clouding the air with words to discuss a covenant for a league of nations without first distinguishing between the two types and trying to understand them separately and not in combination.

To which of these two types does the proposed Covenant of the League of Nations conform? Clearly, as it seems to me, it conforms to the second.

I pass for the moment over the question of the interpretation of particular covenants or articles in the Constitution of the League, and I call your attention to the fact that according to one of the articles,—the XIIth—it is provided that whenever a dispute, likely to lead to rupture, arises between any two nations, the disputants covenant either to refer that dispute to arbitration, or to refer it to the Executive Council of the League for its decision. Arbitration, under the next article, is shorn of much of its efficacy by the proviso that either party may defeat the reference merely by refusing to recognize the question as suitable for arbitration. Mr. Root has pointed out that that turns the hand of the clock backward a generation in the matter of international reforms. Whether that be so or not, the fact is that if two nations become involved in a dispute, and one of them blocks the process of arbitration, it then becomes the covenant duty of both nations to refer the dispute to the Executive Council of nine nations, dominated by five.

I pass for the moment over the contingency in which the Assembly of Nations may have a voice in the decision and limit myself to the cases in which the Council as a body must pass upon the question involved.

Now, I am not discussing the question whether it is wise or unwise to provide that questions shall be decided by narrow majorities or by large majorities. That is a question of detail. It is not a question of principle. I wish to point out to you

the thing which my friend, the Senator, and the other close reasoners, have failed to note, and which some of us impassioned orators think it highly important to observe, which is this—that when you pass from the unanimity of diplomatic conference to the method of control of minorities by majorities, you have passed from the domain of international diplomacy into international government. A diplomatic conference aims at unanimity. If the conferees are not unanimous, the conference adjourns. The instant it becomes possible for part of a group to bind the rest, whether it be a large or small majority, you have crossed the dividing line, and you have cut loose from one great way of settling human disputes and you are launching yourself upon the wide sea of majority control of minorities.

This is a serious business. We must not spar for points, or anything of that sort. Let us see if we cannot focus our minds upon the real question and then make up our minds what we are going to do about it. If I ever said an honest thing in my life, it is when I say that the decision of the American people upon this and other great questions will be the best and wisest decision and that all we need insist upon is that they must understand what the question is which they are going to decide.

Now, let us imagine some specific case of dispute. You cannot mention particular nations without seeming to give offense. That is far from my desire. Let us suppose for a moment that a dispute has arisen between the United States and Japan; that the question is whether or not we shall change our restrictions upon immigration in accordance with the natural wish of our Japanese brothers. To Japan's protest we reply that it is a matter of domestic concern. "That ends it!" says the Senator. Well, how about that? The article to which he refers provides that the jurisdiction of the League shall not extend to a matter which, according to the contention of one of the parties, is found by the Council on settled principles of international law to be a matter of purely domestic concern. Observe that the Council has jurisdiction not merely to decide the ultimate question, but the preliminary question whether the one before the Council is something that falls within its jurisdiction. Moreover, there is no principle of inter-

national *law* settled or unsettled, which enables you to decide a question of *fact*; and it is a question of fact in a particular case whether a matter is of purely domestic concern or whether it is not. In a case of restricted immigration, from the point of view of the nation that is doing the excluding, it seems perfectly obvious that it is a matter of purely domestic concern; but from the point of view of the Mikado, whose subjects are being excluded, it is an international matter of great importance. You do not have to impute lack of intelligence or perversity, or any other undesirable quality, to the Council in order to imagine that they might well decide that a question of immigration is not at all a question of purely domestic concern, but one which they should proceed to decide upon its merits. Precisely the same thing is true with respect to questions affecting economic policy. I will gladly meet the Senator any time he wants, either in private or in public, and undertake to satisfy any fair-minded man present at the interview that the Council, in every one of those cases, has jurisdiction to settle not only the ultimate question on its merits, but the preliminary question whether its jurisdiction shall extend to the question under consideration.

Now, all this is very serious. Why? This question has arisen, and it goes to the Council, and the Council decides in favor of one of the disputants—it does not make any difference which for our present purpose. How does it decide it? Why, it may decide it by a five to four vote. What happens then? Nothing. The Covenant provides that each nation in that event may do as it shall be advised. That means fight. It is a perfectly ineffective document as respects what happens if there is not unanimity in the Council. The one good thing that there is, is that which is characteristic rather of a league of the first type than of the second—and that is the provision for a cooling-off period of three months before resort can be had to force. But suppose the Council votes by seven to two, subtracting in that case Japan and the United States, because they are parties to the controversy. If seven votes in Council are cast in favor of one party or the other, each is bound. I do not say it is wrong that we should be bound, but I want you to know that we *are* bound. We are bound because we covenant that the nation against which the decision of the Council

goes by a seven to two vote will not go to war against the other nation in whose favor the Council has decided, that other nation having, of course, accepted the decree made in its favor. Don't be misled. It is very cleverly drafted. It is not phrased as if it was an exercise of the power of the Council. It is phrased in the form of the covenant of the party. The Council makes the decision. "Well," asks the Senator, "what do you want councils for but to make decisions? Could there be anything more delightful and peacemaking than that the Council should sit and make a decision and then adjourn? No harm in that, surely." What about the position of the nation against whom they have decided? It has covenanted that under no circumstances will it resort to force as against the nation in whose favor the decision has gone. The unsuccessful disputant must acquiesce or break its covenant.

Now, my friends, right in the center of the discussion of these questions growing out of the league, there is a great, big moral question which some of our friends seem to overlook. As good a man and as wise a man as Mr. Taft has declared time and again (if he is correctly reported) that we must not take these covenant obligations too seriously. After we have covenanted and after the inexorable logic of the situation requires that we shall live up to the obligations of the covenant, it must, in the last analysis, (he tells us), be open to the Congress of the United States to repudiate the commitment of our representative and refuse to do the thing which logic and fairness call upon us to do.

Now, I do not deal as much in adjectives as some do. I think nouns are more effective. But that is the contention. You will pass upon it and decide whether or not it is the kind of contention which is likely to meet the acceptance of the American public when they understand what it means. It is equally true, under our own system of government, that after the Supreme Court has made a decree, it is up to the executive to see that that decree is carried into effect. Once in history, a President—I will not mention his political party—a President said in anger (referring to the great Chief Justice)—"John Marshall has issued the writ: let him enforce it if he can." Such an utterance brings about a collision between the departments of government, which is not creditable to the

organization. Think of such a situation in the case of the League. The covenant is that we will not resort to force. The decision has gone against us. We must either stand bound by the decision to which we have subjected ourselves in a vital matter or we must say "We cannot stand it—we cannot stand it! This was not the kind of a case that this document was ever intended to deal with. We shall accordingly break our covenant!" If we do this, against us there will be turned not merely the moral scorn of the world, but the material force of the League.

It is perfectly true, as the Senator says, that no power on earth but ourselves can make us send our sons to fight abroad. But the point is that we won't let them stay at home if we assume this obligation and take it seriously; and there can be no manner of doubt that the thing which we are required to do by the Covenant is, in certain contingencies, to send them abroad to take part in a fight without an opportunity to decide on which side they will range themselves.

The Senator refers to Article X—all Senators know everything that is in the Senate files—and, therefore, he must know the history of that article. Some years ago, President Wilson made a speech at Atlanta, in which he explained what a great thing it would be if all the nations of the Western Hemisphere should reciprocally guarantee one another's political independence and territorial integrity. The idea seemed so good to him that a treaty was drafted and sent informally to the Senate and passed around to see what impression it made upon the international lawyers in that body. It was unanimously repudiated as an impossible proposition. It was pointed out that there were situations in South America, notably as between Chile and Peru, which would be affected by any such provision in such a way that you would be repressing the national craving for independence, or for the reunion of a South American Alsace to a mother France,—that you would be repressing that craving,—that you would be putting a straight-jacket on some of the weaker nations of the southern hemisphere in the interest of the stronger. The thing was never pressed. It was withdrawn. It reappears as Article X of the League of Nations, and is now made applicable to the whole world.

Next you are seriously told that Article X and Article XXI are nothing more than the extension of the Monroe Doctrine to the whole world. Article XXI first misdescribes the Monroe Doctrine. The Senator is quite right in saying that if you want to call a thing that *is not* a regional understanding, a regional understanding for the purposes of the document, that goes. And so it does. That is a mere matter of description; and it does not make much difference whether it is accurate or not. But the point is that Article XXI provides that regional understandings "like the Monroe Doctrine" shall not have their validity impaired if they tend to maintain the peace of the world. Who decides? The Council. The Monroe Doctrine was not intended to promote the peace of the world. It was an announcement by the United States that certain words spoken to us would be fighting words. It was an announcement that under certain circumstances the best interests of the country may require that there should be a fight; and that all the world should take notice of the fact. The Monroe Doctrine is no more preserved by Article XXI than it is by any other article in the Treaty. A case under the Monroe Doctrine goes to the Council for decision just the way the immigration question goes, just the way the tariff question goes, just the way the coastwise trade question goes, just the way the Panama Canal question goes, just the way that every question goes which has two ends to it and is regarded by one party as being a matter of domestic concern, and by the other as a matter of international concern; and the Council may decide the merits of the question by a vote of seven to two; and the nation against which it decides is bound.

My friends, let us not be deceived by words. If you want this thing, take it; but take it with your eyes open. This thing is not an international council of conciliation. It is just as shrewd a corporate voting trust, perpetual in its character, as a Philadelphia lawyer ever put into the middle of a reorganization agreement. It is an offensive and defensive political alliance, contrived to place forever in the hands of a dominant group of great powers the control of international affairs.

I am pointing out to you that we are talking about a principle. The gentleman may say that if we are wrong, we

ought to be willing to take our medicine. If seven nations can be found to say we *are* wrong, we ought to be ready to admit our wrongness. That is not wise constitution making. When the issue arises people do not see rights and wrongs the same way. Where your adjudicating body is not a judicial body but an executive body, it is bound to decide the question on the expediency of the moment, and according to the political considerations that affect the nations which the councillors represent. Don't forget that. We have here an international voting trust of nine nations, dominated by five. It has power to decide by a seven to two vote any question affecting the peace of the world which may be referred to it, and the party against whom it decides is bound by the decision. If the Council itself refers it to the Assembly of Nations, or if either of the disputants refers the case in the first instance to the Assembly of Nations, you are likewise bound if, in addition to the seven votes in Council, a majority of the remaining thirty-six nations,—that is, nineteen, vote with the Council. That is very interesting. Did you notice that in the original Covenant, unanimity in the body of delegates was required, saving for the parties in controversy? When they produced the last amended draft, the inevitable tendency toward centralization had already begun to work even while the Peace Conference was in session, and they accordingly substituted, in this second draft, *majority action* in the Assembly of Nations. It is, therefore, no longer a question of thirty-six nations voting outside the Council; it is nineteen out of the thirty-six; and of those nineteen, Great Britain (in addition to her imperial vote in Council) has five votes. Fourteen votes is precisely equal to those which the South American Republics would be likely to cast with Great Britain on any question affecting trade relationships and some of the other questions that I have referred to.

This is a league of the second type, which operates by delegating to a central organization the power to decide great international questions in great emergencies and to bind member-states by the decision. Now if you are of opinion that we should have a league of that type, let me give my reason for declaring this to be a very poor specimen of its type.

In the last analysis, every nation must place its reliance

either upon a legislature or upon a court or upon the executive. England trusts Parliament. They have worked out a system of individual and constitutional liberty, the equal of anything the world has ever seen. We have pinned our faith upon a court. The secret of the success of our constitutional experiment is that sentence in the Constitution which vests the judicial power of the United States in the Supreme Court. When our friends take as an analogy the success of the Constitution of the United States, I ask you to consider what would have been the success of our experiment if, instead of vesting the judicial power in the Supreme Court, the Constitution had vested it in the President and his Cabinet? The nation which trusts the executive rather than the legislature or the judiciary always ends in tyranny. Kaiserism is nothing but the executive raised to the *n*th power. The Kaiser had a little legislature, the Reichstag, and he had a little court. This covenant contains a provision that the international voting trust, when it gets ready, may create a court but only with jurisdiction to decide those questions which both disputants choose to submit.

The point I wish to make in closing is this: That if you are going to build the United States into the structure of a larger governmental concern, for God's sake, take account of our American constitutional experience, and do not subject the world to executive control, or subordinate to the executive not only the legislative but the judicial function. It is an awful thing to contemplate nine people sitting over yonder—eight unknown Europeans and perhaps one unknown American deciding not merely questions that are properly executive, but questions that are properly legislative, and questions that are properly judicial. It is perpetuating for all time, the kind of governmental control over international affairs which we tolerated for the period of the war when we said to the President and his Cabinet, "Take over the railroads and the telegraphs and cables and food control, and fuel control, and price fixing, and all the rest of it." It is in war-time that the executive shows itself to be the strong arm of government in an emergency. But do not, under the influence of the war spirit and the impassioned eloquence of the adherents of this covenant, allow yourselves to be betrayed into confiding to execu-

[396]

tive authority, and for all time, the things which are essential to liberty.

There never was a time when American citizens were called upon to perform a more important duty in the way of independent thinking and analysis than to-day. Ordinarily when the commissioner comes back from conference with his treaty, he brings it to the White House and lays it upon the table; and there the Chief Executive subjects it to calm and unimpassioned judicial review. He calls the Senate in to advise, and between them they get the document into a form compatible with the interests of the people of the United States. I have not a word to say about the wisdom or unwisdom of the President's going abroad. I merely wish to point to the fact that when the President returns from the superheated atmosphere of conference, with a document to which he is committed by official action, and when he lays it upon the table in the Executive Mansion, he finds the chair of the Chief Executive empty. It is not a question whether it ought to be empty, but the fact is, that it *is* empty. It is perfectly certain under these circumstances that the document will not be amended by the Chief Executive. It is perfectly certain that this document will not be amended except by the Senate, and it is perfectly certain that it cannot be amended by the Senate as long as attempts are made to start backfires behind the senators, and so prevent them from exercising sound legislative discretion respecting the form in which the document shall pass.

You have a great responsibility. You must keep the boat from rocking. Hold public opinion so far in suspense as to give the Senate an unhurried chance to decide the question which it is its constitutional duty to decide. The situation is much the same as if a case of grave importance were pending in a lower court and the chief justice were to step down from the supreme bench and take the decision out of the hands of the judge and decide it, and were then to hurry back to the Supreme Court in time to hear the appeal from his own decision. And unless an invitation is given by the President to the Senate to give unhurried consideration and unhampered discussion to this vitally important document, it will be exactly as if the chief justice not only heard the appeal from

his own decision, but refused to invite his colleagues on the court to share his responsibility.

What I say to you I say in all seriousness. I am not in public life. I have never held public office and I hope I never shall. I have no political ambitions. I am a private citizen like yourselves; but I am deeply concerned to do my little to see that this question is perfectly understood by the American people. And I assert, without using a word that I do not mean, that any man who, under present circumstances, encourages popular clamor or brings to bear executive pressure to interfere with unhurried consideration by the Senate is more eager to obtain a constitution for the world than to safeguard the constitutional liberty of this Republic.

[398]

PROPORTIONAL REPRESENTATION IN THE LEAGUE OF NATIONS

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to Enforce Peace

THE foreign policy of the United States tends in the direction of the protection of the weak against aggression by the strong. This is reflected in the Monroe Doctrine, and it is more or less academic to consider whether it is based upon pure altruism or merely upon an enlightened self-interest. The purpose of these remarks is to show that proportional representation is necessary to realize that policy under the League of Nations, both as to the representation of states and as to national minorities.

1. The Minor States and the Council

The war was begun by aggression on the part of two powerful empires against two of the small states of Europe. Thus the enfranchisement of the smaller states came to be one of the avowed objects for which the war was waged. This object is reflected in the League because on principle it recognizes the equality of all its members, grants to each an equal representation in the Assembly and adopts a requisite of unanimity in both organs, except as to certain particular matters. If the League has disappointed the hopes of the minor Powers, it is because of the lack of adequate representation in the Council. We, therefore, venture to favor a method by which this objection may be met by the action of the organs of the League, without any structural change in the Covenant.

Three great empires have been wholly or partially dismembered as a result of the war, and the number of smaller states has thus been greatly increased. It is to be expected that these will press for representation in the Council, and yet this body cannot and should not become too unwieldy for prompt resolution and the timely adoption of ways and means. Yet all the members of the League could be presumptively represented by slightly enlarging the Council and by forming the

minor powers into groups or panels, from which each member would serve for a fixed period in rotation according to permanent rules. The Council with the approval of a majority of the Assembly, has power to provide for this under Article IV of the Covenant.

Such an arrangement would conciliate the *amour propre* of the smaller nations, a factor by no means negligible in maintaining the peace of the world. It would also draw them together in bonds of friendly interest, where otherwise there would be rivalry. In time, the representative might become the spokesman for the entire group instead of merely for his own government. General Smuts when favoring a like plan even thought that such groups "might become useful for other purposes besides representation."

Consider, for example, the great value of a Latin-American group, with each important nation serving in rotation, instead of having Brazil the sole representative. Would not the differences of the competing Balkan peoples be conciliated, and in time would they not acquire a certain community of interest, if all were to serve in rotation after Greece, whose national worth and dignity as a Council member is, of course, not to be questioned. Can the Council afford to be without representation of the governments of a group embracing the Scandinavian countries, the Netherlands and Switzerland, in rotation after Belgium? Should not the government of the most populous nation in the world, the new China, have some voice in the Council?

In a League founded upon justice and international cooperation, the small nation must be encouraged to look forward to a seat among the mighty. As M. Leon Bourgeois has so succinctly expressed it: "A people may be small in territory, population, or power, but great in ideals and ideas." The League must seek to remove friction and realize hopes. It must avoid the rock upon which the Hague Conference foundered in its endeavor to create a Court of Justice. It is precisely the Council which is now invested with the task of again formulating plans for the establishment of a permanent Court (Article XIV). The solution of that problem will reflect the Council's own system of representation and it has, therefore, a double significance.

2. *National Minorities and the Assembly*

When it is said that the League of Nations is to represent the "organized peoples" of the world and not merely their governments, some further clarifying exposition is necessary. Peoples are organized in and through the state. The state articulates and functions only through government. Even the freest governments are frequently controlled by officials who represent only a bare majority and indeed often an actual minority. As public opinion is not static but in a constant condition of flux, there can be no absolute assurance that a government, or an administration, no matter how democratically selected, will represent the majority at all times. Nor is it of vital importance that it always should. The people cannot act except through their representatives and it is to be assumed that in all states deemed eligible to a league of free nations, there will be a constitutional structure by which the majority may, within a reasonable period, assert its will and oust the minority from control. The vital point is that in a league the primary object of which is not to carry on any international government but to promote peace and international cooperation between sovereign states, the theory should not be merely to assure representation in the league by the majority within each state, but to reflect as many responsible elements of public opinion as possible. Let us apply these principles to the Covenant. The Council is frankly and intentionally the reflection of the executive power of the governments represented in it. It is an organized body of governmental executives. Where a Council member represents a parliamentary system of government, his responsibility will be to the people through the majority of their legislative representatives. In a system like that of the United States, his responsibility will be primarily to the chief executive. It is plain that so far as the Council is concerned, there is no representation of the people except through the government or administration.

The Assembly is often referred to as the "deliberative body" of the League and yet its functions according to the Covenant are not so different from those of the Council as to distinguish the one from the other in this respect. It will, it is true, be a numerous body and common observation teaches us that a numerous body acts only after much deliber-

ation. Yet this difference in functioning is only a difference *in modo*, not *in re*. If the Assembly is to be chosen only by the governments, there will not be the slightest difference in the complexion of its membership from that of the Council, except in that part which represents nations not represented on the Council, namely the minor powers. There would, therefore, be a continuous and powerful element within the Assembly, endeavoring to impose the opinion, if not the will, of the Council upon the Assembly, thus encroaching upon its independence and lessening its value as a coordinate body.

Something of these difficulties must have been sensed by the drafting committee because it was stated by the President at the session of the Peace Conference, on February 14th, that there was "a universal feeling that the world cannot rest satisfied with a merely official guidance . . . that if the deliberative body of the League was merely to be a body of officials representing the various Governments, the peoples of the world would not be sure that some mistakes which pre-occupied officials had admittedly made, might not be repeated." In view of the fact that each nation may have three delegates but only a single vote, there can be no doubt that it was intended that the nations should themselves provide for proportional representation in the membership of the Assembly. If the members are all to be chosen from the same party and are only to cast the vote of the government, a representation by one would be better than a representation by three, because responsibility would be more direct and action more easily controlled. Proportional representation, however, will bring to the deliberations of the Assembly the best minds of the principal parties or groups, tribunes of the people who will check the possible errors of the government, or the administration, before decision is taken.

There is a marked difference between the principles which ought to prevail in selecting popular representatives in a national legislature and those which should govern the appointment of delegates to an international deliberative body. In the former case, the rule of the majority is tempered by the presence of representatives of minorities who always succeed in electing a greater or less number through the varying character of populations and sectional and class interests. In an

international body such as the Assembly, this influence can exist only through proportional representation, while it is precisely there that it is of greatest importance. *The international view of world problems can be strengthened only if divisions of opinion do not coincide with national boundaries.*

Proportional representation in the Assembly of the League of Nations is more vital to the effective expression of the public opinion of the United States than that of most other nations. Under a parliamentary system, immediate control is exercised over the appointment of representatives, and thus, the government finds it advantageous to conciliate various currents of opinion. Under the American system, however, the administration may have lost its majority long prior to the appointment of national representatives and party policy may unfortunately dictate a narrower view. We are confronted at the present moment with some of the dangers to which international negotiations may be subjected through neglect of the wishes of the opposition in the appointment of negotiators. The League is in a measure the organized continuity of the Peace Conference. The success of the League will be better assured and the people of the United States more adequately served by some system of proportional representation.

THE LEAGUE OF NATIONS COVENANT

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THERE has been no problem before the world for centuries that has been as important as that of the League of Nations. It must be apparent to the meanest intelligence that the world organization of the past has failed disastrously and that the people of the earth are quite certain to establish a new system. Our only choice is what that system will be. Public war must go the way of private war.

Universal peace is not a new ideal. Governments have been set up and torn down, boundaries have been changed, and peoples have migrated for the sake of peace and the opportunity of peaceful development. In two thousand years Europe has enjoyed practical peace but once, and that at the cost of liberty in the time of the Roman Empire. There can be little doubt that in 1917, after the collapse of Russia, and before the entrance of the United States into the war, there were many who feared that the foundations of civilization were being undermined and thought that perhaps it would be better to live under the orderly control of one empire than to continue a struggle, which very obviously might overturn the structure of society, waged for an ideal of justice unattained in two thousand years. This doctrine of despair was at that time the greatest danger to the cause. Our entrance into the war revived the hope of the world and maintained the morale of the Allies fighting, scarcely more than a year ago, with their backs to the wall. We made it apparent to all that the vague hopes of centuries might be realized. Would it be honest, decent or wise to snatch that hope away?

The opponents of the League of Nations seem horrified at the idea of the United States taking an active interest in the maintenance of world order. It is almost inconceivable that any intelligent person, who has been awake at any period during the last two years, can seriously make this point. Politicians howl at the idea that five or ten thousand American troops may be used to maintain order in the Balkans. It is, of

course, highly improbable that they ever will be, as the Near East will be particularly the province of the European powers, just as American problems will be left to the United States. Are these men, however, so inconceivably ignorant of international affairs that they do not realize that we had a million American soldiers in France last year, because order was not maintained in the Balkans five years ago? Whether we like it or not we are inextricably bound up in the world's structure. We made every effort to keep out of the war, but it proved impossible. Can any one say that we have no interest in the maintenance of peace? If we do not share in the policing of the world, we must be prepared to fight it.

Other objectors say that the Monroe Doctrine is impaired. The Monroe Doctrine, as we all know, is a guarantee of the liberty and integrity of the South and Central American Republics, by the Government of the United States. Under the League of Nations, this liberty and integrity would be guaranteed not only by the United States, but by all the other great powers. Would any of the men who gravely advance this argument, refuse a note or a mortgage which had previously been satisfactory to them, merely because it had additional endorsements?

We also hear that peace should be made first and the League taken up afterwards. This argument is advanced apparently on the theory that peace is a material object which is manufactured, like a typewriter or a brick. If any person chooses to read the treaties which have ended any war in the past, the agreements which have ended strikes, or any document which has ended human contention anywhere and at any time, he will find that it is merely a statement of the conditions regulating the future relations of the contracting parties. Now, it is certainly for the best interest of the world that the future relations of the powers will be such as to preclude war, and it is necessary that those regulations take the form of a league. If the Peace League be not included in the treaty and we should want to make a league afterward, the first thing we would have to do would be to scrap the original treaty.

We are told that under the Peace League, other countries will be able to dominate the United States and, to a certain extent, impair its sovereignty. Ordinary common sense will

show that if we cannot trust the other nations as partners in a league, we obviously cannot trust them merely because we do not have a league. If we fear seriously an unjust union of a majority of the great countries of the world against the United States, their partner in the League, we certainly must prepare ourselves to face this combination of all the powers joined against us. If these men really feel that England, France and Japan are going to join in a plot against the United States, obviously we must maintain a fleet equal to their combined navies and an army equal to all of theirs put together. Anything less would be to expose the interests of the United States to the grasping alliance conjured up in senatorial minds. The expense, of course, would be staggering, but no cost can be too high to stave off the defeat of justice and independence. Taxes such as we never dreamed of must be levied. A war establishment such as the world has never seen must be maintained if we wish to continue free without relying on the justice and fairness of other nations. I should hate to see the United States take up that policy which has failed so disastrously in Germany. There is no reason why we should make a much greater success than Germany did, if we base our international relations on distrust and on the assumption of dishonor.

I am not attempting to say that the proposed League is going to bring about the Millennium or even that a better one could not be devised. An agreement reached by great nations must of necessity be a compromise and is almost certain to be imperfect. Our choice is between this league and none at all.

There can be no doubt that should there be no league those countries which have suffered most in the struggle against German Imperialism will fall first before the Bolshevik. There can be no question whether it would be honorable or not to abandon France, England and Italy to their own resources. Nor can there be much question as to whether it would be wise in the long run to wash our hands of the affairs of Europe and take no active part in remedying the social disorders of other nations. I can see no alternative to the adoption of the League other than a government of riot, robbery and repudiation in Europe. Such a condition would cause a crisis of such severity in this country that our own social order would be in time menaced. It would be absurd to say that the League

will not cost us money, inconvenience and thought or that there are no dangers inherent in it. We must, however, realize that the cost, inconvenience, and danger of refusing the League will be greater.

It is possible that the League will fail and that Europe will go down under a sea of anarchy, but I do not feel that the faith of our army in France was misplaced, nor do I feel that further assistance to our allies is merely throwing good money after bad. Order and civilization cannot be maintained in Europe unless the nations are entirely freed from the menace of attack and unless they are able to apply to peaceful development much of that power which in the past they have been obliged to use for national defense. If the United States should not enter the League, Europe will make its own alliance. It will not be as strong as if the United States had entered it and certainly with such a powerful people as ourselves outside, this alliance will have to be much more heavily armed than if we joined. There is no other means by which Europe can face the rising tide of anarchy and discontent. We cannot imagine that disorder and unrest in one country will be viewed calmly by any other nation in the world. The danger to one is the danger to all, and a common system to preserve civilization will be necessary and certainly will come into being.

Such a European alliance flouted by the United States will work for the interests of Europe and undoubtedly will constitute a menace to this country unless we chose to join it. We should have, of course, no voice whatever in its formation and probably our position would be less strong than if we redeem the pledge we have given to the world at the present time. There can be no doubt that the European public has understood that the United States was fighting to establish a new order of justice. Our choice is to accept the task and the responsibility of maintaining fair play among the nations, or of retiring with the definite distrust of all peoples and of abandoning the position which we have gained at such a terrific cost, leaving the organization of the world to foreign statesmen.

It seems to me that this policy of cowardice and selfishness would be as unwise as it would be despicable. It is a scandal that men in high office should play politics with the hopes of the world, and that for a supposed partisan advantage they should be willing to risk the aspirations of mankind.

INTERNATIONAL LABOR STANDARDS AND THEIR POSSIBLE ENFORCEMENT IN THE UNITED STATES

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THE announcement of the adoption by the Peace Conference in Paris of the proposed treaty or international convention recommended by the Commission on International Labor Legislation, leads naturally to a consideration of the objects and purposes of the various conventions or conferences of representatives of employers and workers which recently have been held in Europe and America, as bearing upon the probable direction to be given by the International Labor Convention.

British National Industrial Conference

The National Industrial Conference, called by the British Government and held at Westminster on February 27, 1919, embraced a very large number of representatives of organizations of employers and workmen, besides several members of the British cabinet. It was characterized by extraordinarily frank expressions of opinion from all parties concerned. Reference was made in the course of the discussion to the fact that already, through the mechanism of the Ministry of Labor, twenty-six industrial councils had come into existence, and twenty-four more were on the way; that these would cover two and one-half millions of workers, the purpose of these councils being to adjust questions of dispute between employer and employee. As was natural, a great deal of the discussion turned upon the existing condition of unrest in England which has followed upon the demobilization of the millions of men who were engaged in the military service during the war. The most candid expression of the opinions and aims of a large body of workers, was given by Mr. J. H. Thomas, the Chairman of the National Union of Railwaymen—a body which embraces, I believe, more than half a million workers. Mr. Thomas said:

The organized workers of Great Britain have made up their minds to procure for themselves an increasing share of the wealth which their labor has produced and produces. The workers, and I speak more especially for the members of our threefold organization, are determined to shorten materially the hours of labor in their respective industries. They are dissatisfied with the system of society which treats their labor power as a mere commodity to be bought, sold and used as though they were machine-like units in the process of wealth production, and they therefore demand that they shall become real partners in industry, jointly sharing in the determination of working conditions and of management. Labor becomes increasingly alive to its sovereign power, and will shirk no responsibility, but equally it will be denied none of its rights and its privileges. The miners, railwaymen, and transport workers stand unalterably for ownership by the State of the mines, railways, and the means of inland and coastal transport. This is essential in the interests of the general community, as well as of the increased efficiency of these three national industries.

Mr. Thomas also referred to the fact that as a result of the war, the workers had resolutely set their faces toward some order of society which would improve their lives and conditions in accord with the new valuation they set upon themselves. He said,

No longer are they prepared to content themselves with every wage advance being thrust upon the consumer, and, consequently, of canceling every improvement instantly and automatically. Rents, interest and profits are not inviolate. Statesmen of every party must make up their minds that there is going to be a drastic change. Wise men will allow and provide for it.

The meeting resulted in the adoption of a resolution providing for the appointment of a joint committee, consisting of equal numbers of employers and workers, men and women, together with a chairman appointed by the government, to consider and report to the Conference at a later day, on the causes of the present unrest, and the steps necessary to safeguard and promote the best interests of employers, work people and the state, and especially to consider:

1. Questions relating to hours, wages and general conditions of employment;
2. Unemployment and its prevention;
3. The best methods of promoting cooperation between capital and labor.

Report of Joint Committee, April 4, 1919

A very representative committee was appointed, consisting of thirty representatives of employers and an equal number of representatives of the trades-unions. This committee reported back to the Conference on April 4th. The trades-unions' representatives submitted to this committee a comprehensive memorandum, setting out causes of the existing discontent of the workers and suggesting remedies, which is printed in full as an appendix to its report. Many of the subjects discussed in the memorandum were beyond the scope of the consideration which the committee deemed itself able to undertake as a preliminary to its report. Some of these matters undoubtedly will be brought forward for the consideration of the National Industrial Council, instituted in conformity with the recommendations of the committee. The memorandum sets forth that

with increasing vehemence labor is challenging the whole structure of capitalist industry as it now exists. It is no longer willing to acquiesce in a system under which industry is conducted for the benefit of the few. It demands a system of industrial control which shall be truly democratic in character. This is seen on the one hand in the demand for public ownership of vital industries and services and public control of services not nationalized which threaten the public with the danger of monopoly or exploitation. It is also seen in the increasing demand of the workers in all industries for a real share in industrial control. . . .

The memorandum specifies the more important and especial causes of industrial unrest. It dwells upon the high prices prevailing for commodities of common consumption; the universal opinion among the working classes that profiteering had taken place during the war on an unprecedented scale. It attacks the government for selling national ships, ship-yards and factories, instead of utilizing them for the employment of labor in large quantity; refers to the extent of unemployment, and the inadequacy of unemployment allowances paid by the government; the effect of the termination of hostilities in causing a sudden reduction in earnings, although not in wage rates, of huge masses of workers, without any corresponding decrease in the cost of living. Complaint is made that hours of labor have not been reduced, although "the workers are now urgently demanding a higher standard of leisure, to be

achieved by a reduction in working hours and the abolition of systematic overtime." It points out the great need of better housing conditions for workers, which can only be supplied by the government; demands recognition of trades-unionism of government employees, including the police and complains of the lack of representative machinery capable of giving constant expression to the co-ordinate demands of the whole of the workers.

The memorandum presents a program of remedies for unrest, the first item of which is a demand that

a substantial beginning must be made of instituting public ownership of the vital industries and services in this country. Mines and the supply of coal, railways, docks, and other means of transportation, the supply of electric power, and shipping, at least so far as ocean-going services are concerned, should be at once nationalized.

It is claimed that

Private profit should be entirely eliminated from the manufacture of armaments, and the amount of nationalization necessary to secure this should be introduced into the engineering, shipbuilding, and kindred industries.

There should be a great extension of municipal ownership, and ownership by other local authorities, and co-operative control of those services which are concerned primarily with the supplying of local needs.

Key industries and services should at once be publicly owned.

This extension of public ownership over vital industries should be accompanied by the granting to the organized workers of the greatest practicable amount of control over the conditions and the management of the various industries.

Concerning those industries which cannot at once be publicly owned, the memorandum urges the retention of state control, and particularly that wherever state assistance is granted in the re-establishment of industries upon a profit-making basis, there should be correspondingly strict state control. In view of the enormous burden of debt which has accumulated as a result of the war and of the methods adopted in financing the war by loans rather than by direct taxation, it is urged that steps at once be taken to remove a considerable part of this burden by a graduated levy on capital, from which property of \$5,000 and less in value should be exempted. The memorandum also deals with the question of unemployment, urging the creation of a complete and comprehensive system of

unemployment wages and greater security on the part of the worker, including a provision that

the worker who is threatened with arbitrary dismissal should, in all cases, have a prior right of appeal to his fellow workers, and wherever dismissal takes place on grounds other than those of demonstrated misconduct, the worker who is dismissed should be entitled to a payment proportionate to his period of service with the firm.

As to wages, the establishment of a reasonable minimum wage for every worker is demanded, as well as the principle of equal pay for men and women and a system of regulating wages. A reduction of hours of labor to a maximum of eight in any one day and forty-four in one week, is insisted upon with provisions for the prohibition of all systematic overtime, and the payment of all necessary overtime at special rates; special rates of pay applying also to night work, Sunday and holiday work; night work to be abolished absolutely for women and children and, wherever possible, for all workers. The memorandum recommends that steps immediately be taken for the international regulation of the hours of labor and for the inclusion of a universal maximum in the terms of the International Charter of Labor. In closing, the memorandum sets forth that:

the fundamental causes of labor unrest are to be found rather in the growing determination of labor to challenge the whole existing structure of capitalist industry than in any of the more special and smaller grievances which come to the surface at any particular time.

These root causes are twofold—the breakdown of the existing capitalist system of industrial organization, in the sense that the mass of the working class is now firmly convinced that production for private profit is not an equitable basis on which to build, and that a vast extension of public ownership and democratic control of industry is urgently necessary.

It is essential to question the whole basis on which our industry has been conducted in the past and to endeavor to find, in substitution for the motive of private gain, some other motive which will serve better as the foundation of a democratic system. . . . The motive of public service should be the dominant motive throughout the whole industrial system, and the problem in industry at the present day is that of bringing home to every person engaged in industry the feeling that he is the servant, not of any particular class or person, but of the community as a whole. This cannot be done so long as industry continues to be conducted for private profit, and the widest possible extension of public ownership and democratic control of industry is therefore the first necessary condition of the removal of industrial unrest.

The conclusion of this argument would seem to be a *non sequitur*, and it might be remarked in passing that the public is hardly well served by the abrupt abandonment *en masse* of all service in transportation or communication or other work affecting the public, merely as a means of compelling compliance with demands for changed conditions of labor which are susceptible of determination by arbitration.

Report of Conference Committee

The Conference Committee considered only a part of these demands. Its report dealt especially with the question of maximum hours, minimum wages, methods of dealing with war advances, recognition of and negotiation between organizations of employers and workpeople, unemployment and the institution of a National Industrial Council. It recommended the principle of a legal maximum of forty-eight hours per week for all employed persons, varying in special cases. As to wages, the committee agreed that minimum time rates should be established by legal enactment of universal applicability, regulated by a commission and a court of arbitration.

The provisions concerning unemployment dealt largely with conditions resulting from the war, which here may be regarded as largely temporary and local in character, and, therefore, as not having a general international interest.

A comprehensive housing program to meet the acknowledged shortage of houses was recommended to the government, as also state development of new industries, such as afforestation, reclamation of waste lands, development of inland waterways, and in agricultural districts, the development of light railways and road transport.

A wider application of the normal governmental provisions for maintenance during unemployment, and provisions enabling workers, whilst unemployed, to get access, without payment of fees, to opportunities for continuing their education, and improving their qualifications, were also advocated. To secure the largest possible measure of joint action between the representative organizations of employers and workpeople, and to be the normal channel, through which the opinion and experience of industry would be sought by the government on all questions affecting industry as a whole, the committee re-

commended the establishment without delay of a permanent representative national industrial council.

National Industrial Council

Among the specific objects of such a council would be the consideration of general questions affecting industrial relations, of measures to anticipate and avoid threatened disputes, of actual disputes involving general questions, of legislative proposals affecting industrial relations, of advice to the government on industrial questions and on the general industrial situation and the issuance of statements for the guidance of public opinion on industrial issues. The Council, of which the Minister of Labor is to be President, is to consist of four hundred members, one-half to be elected by the employers' organizations and one-half by the trades-unions. There is to be a Standing Committee of the Council, consisting of twenty-five members elected by the employers' representatives on the Council, and twenty-five by the trades-unions' representatives; which Committee is to be empowered to take such action as it deems necessary to carry out the objects of the Council, and to consider any questions referred to it by the Council or the government, reporting its decision to the Council. It shall meet at least twice a year, and in addition, as often as the Standing Committee shall deem necessary. Great hopes are placed upon this Council as furnishing a practical method of settling questions between employers and their employees which might otherwise result in serious disputes and disorder.

France C. G. T. Program November, 1918

In France, the General Confederation of Labor (C. G. T.) the official representative of organized labor in that country, in November, 1918, met and formulated a minimum program of labor reform to be submitted to such a commission on labor as might be constituted by the Peace Conference. The program embodied a demand of syndical rights for workers, including government employees; the right of sailors to leave ships in port; revision of the Maritime Code; the right of labor unions to intervene in labor questions; the standardization of wages in each industry, through collective agreements and under the administration of labor organizations; an eight-

hour day; the prohibition of night work for women and children under eighteen; and compulsory education up to fourteen years of age.

As a protection against the high cost of living, the abolition of duties on food, coal and lighting material was advocated, and the establishment of a national communal food administration, composed of representatives of labor and consumers, which should have power to purchase and sell its products without profit; and the levying of a tax on incomes, war profits and inheritances to reduce the national debt.

Government Control and Regulation, not Ownership

The Confederation laid great stress upon the intervention of government in reaching a solution to the problems with which it was concerned; not government ownership; but governmental control and regulation of privately conducted enterprise. The program declared that:

The Confederation believes that nothing necessary to personal, family or national life should be turned over to private interests unless collective control forces them to direct their efforts in accord with the general interest. This control, exercised in the name of the state for the producers and consumers and chiefly by their delegates, should be sufficiently powerful to maintain continuous control of production, or prices, of technical development, of conditions of labor, wages and insurance, as well as of the distribution of profits exceeding normal interest or limited dividends.

Thus established [it continued] this control will assure the functioning of the association of industry and state in enterprises whose dispersion will still permit the play of initiative and free competition.

The establishment of a National Economic Council was recommended, aided by regional councils, in which the labor organizations shall have direct representatives responsible to them:

the management of unemployment funds; the reconstruction of the invaded regions by new collective organisms endowed with civil and administrative power by qualified representatives of the producers and consumers; the rebuilding of the cities, communes and factories in accordance with principles of hygiene, of health, and of beauty.

It declares that economic reorganization should have as its basis the uninterrupted development of the national industrial equipment and the unlimited diffusion of general and technical knowledge, and for this purpose

to permit the use of all talent, to seek the utilization of all material resources and the application of all inventions and discoveries; to stimulate private initiative; to prevent all voluntary restriction of production and all surplus or producers, the consequences of which harm production itself.

It is perhaps natural that in England stress should be laid upon nationalization of industry as a means of realizing the aims of the workers. The condition of the workers in many industries in Great Britain, with respect to housing, hours and conditions of labor and wages, has, it is well known, been much less favorable than that of men and women similarly employed in France, Germany or America. During the war, the cooperation or control of the government over employers led to far better conditions for the workers than previously had been enjoyed. They declare themselves determined never to return to the pre-war conditions, and they look to their government to protect them in that resolve. But one of their own leaders (J. R. Clynes, M. P.) suggested to the Conference that no wealth could be created without work; no government by the wave of a wand can settle the housing problem. The Prime Minister also sounded a note of warning concerning the demands upon the national treasury involved in the outline of the workers' desires. "It is always assumed," he said, "that the treasury is inexhaustible, and that this money 'droppeth like the gentle rain from heaven, blessing him who gives and him who takes,' especially him who *takes*, and that you gather the taxes, like the manna, every morning." Still, the brunt of the English hope for improved labor conditions rests upon government aid. The strong individualism in the French character found expression in the recommendations of the C. G. T. above quoted. The play of initiative and free competition is still in the eyes of the French workman the supreme end to be maintained.

Conference of American Federation of Labor

In the meantime, in June, 1918, the Conference of the American Federation of Labor, held at St. Paul, Minnesota, had appointed a Committee on Reconstruction, which prepared a program which was endorsed by the Executive Council of the Federation and submitted to the United States Senate. This program is very full and complete and should be read in its entirety. It advocates many principles which must com-

mand the support of all thoughtful citizens. As is natural, it lays great stress upon the value of trade-union organization and opposes any interference with its complete control of industry. It regards low consumption as the primary cause of unemployment and advocates increased wages as a means of terminating unemployment and leading to increased consumption. It finds the principle of providing employment for idle workmen on public work as an expedient at best, and one which will not permanently remove the cause of unemployment. It contends for increase in wages, reduction in hours of labor and protection against child labor. It advocates cooperation between producers, as securing higher prices for their products, and yet placing these in the consumers' hands at lower prices than they would otherwise command, upon the theory that the middleman and his profit thereby will be eliminated. It yields to the *ignis fatuus* of government ownership and operation, declaring that "public and semi-public utilities should be owned, operated or regulated by the government in the interest of the public," including all wharves and docks connected with public harbors among those utilities and also advocates the development of the American merchant marine under government control; recommends the future enactment of legislation providing that the governments, federal and state, should own, develop and operate all water-power over which they have jurisdiction, supplying the power thus generated to all citizens at rates based upon cost. It advocates, through graduated taxation, measures preventing large tracts of useable land from falling into private ownership and enactments whereby tenant farmers or others may "purchase land upon the lowest rate of interest and most favorable terms consistent with safety, and so safeguarded by governmental supervision and regulation as to give the fullest and freest opportunity for the development of land-owning agriculturists".

Closer control over corporate organization and activity is urged and the restriction of immigration, so that its flow shall at no time exceed the nation's ability to assimilate and Americanize the foreigners coming to our shores, nor permit it at any time when there exists an abnormal degree of unemployment. Better housing of workers is to be attained through a governmental system of building model homes,

under a system of purchase by which the workers may borrow money at the lowest rate of interest and under favorable terms to build their own homes.

Perhaps the most conservative recommendation is that concerning taxation, reading as follows :

One of the Nation's most valuable assets is the initiative, energetic, constructive and inventive genius of its people. These qualities when properly applied should be fostered and protected instead of being hampered by legislation, for they constitute an invaluable element of progress and material development. Taxation should, therefore, rest as lightly as possible upon constructive enterprise. Taxation should provide for full contribution from wealth by a tax upon profits which will not discourage industrial or commercial enterprise. There should be provided a progressive increase in taxes upon incomes, inheritances, and upon land values of such a nature as to render it unprofitable to hold land without putting it to use, to afford a transition to greater economic equality and to supply means of liquidating the national indebtedness growing out of the war.

The need of education for all the people is declared, and large standing armies, or the use of militia during industrial disputes, while the courts are open and the civil authorities competent to maintain the supremacy of the civil law, is opposed.

A provision which is greatly to be regretted is that respecting "the people's final voice in legislation." This declares that

an insuperable obstacle to self-government in the United States exists in the power which has been gradually assumed by the Supreme Courts of the Federal and State Governments to declare legislation null and void upon the ground that, in the court's opinion, it is unconstitutional.

The statement that this power has been gradually assumed by the courts historically is untrue. The right and duty of the judiciary to pass upon the constitutionality of legislation has been continuously asserted and enforced from the foundation of the government to the present day. It is the one function which distinguishes American self-government from the pretenses of democracy in many other so-called republics. Written constitutions are adopted for the protection of the individual citizen and of minorities against the tyranny of majorities. When the Declaration of Independence declared that *all* men are born with certain inalienable rights, among which are life, liberty and the pursuit of happiness, and that to secure these rights governments are instituted among men, it adopted a

philosophy which required government to be organized so as to protect every citizen in the enjoyment of those inalienable rights. Hence, written constitutions were established under which legislatures and executives are restricted in their action. To secure against the overriding of these limitations of power, jurisdiction was conferred upon courts to act as referee or umpire in determining when legislative action violates the rights secured in the Constitution to *all* the people, in the interests of *some* of the people. It is always open to the people to change their constitution, if they desire, in the method prescribed for its amendment. The suggestion in the Federation's program that "the people acting directly or through congress or state legislatures should have final authority in determining which law shall be enacted," strikes at the fundamental principle of American institutions, and threatens the continued existence of those rights, to secure which the government exists.

In this same program, it is declared that "the very life and perpetuity of free and democratic institutions are dependent upon the freedom of speech, of the press and of assemblage and association"; and it is insisted "that all restrictions of freedom of speech, press, public assembly, association and travel be completely removed, individuals and groups being responsible for their utterances". The rights of free speech, of free press, and of the people freely to assemble and petition for redress of grievances, are among those secured by the Constitution. They cannot exist at all, if they are subject to constant interference by the legislatures and popular referendums. Nor is it true that those rights, even in theory are wholly unrestricted. There is, for example, no right to incite to the overthrow of government, and we are being taught by current events that inflammatory utterances against established government inevitably lead to acts of violence and destruction of life and property, and that prevention in this respect is of more importance than punishment. Punishment cannot fully protect the community in the enjoyment of peaceful, normal and regulated life. In the interests of the peace of the nation, inciters to the overthrow of all civilized order and advocates of the use of the torch and the bomb, must not be allowed to preach their subversive doctrines unchecked, upon the theory that

[419]

their arguments will fall upon deaf ears, or that if some unbalanced mind is led to put their teachings into practical application, his punishment will deter others from following his example.

A fallacy also is involved in the unqualified declaration contained in this same program, that "the right to bear arms is a fundamental principle of our government, a principle accepted at all times by free people as essential to the maintenance of their liberties and institutions. We demand that this right shall remain inviolate." Experience has shown that the right to bear arms, like other rights, requires regulation in the interests of the safety and welfare of organized society, and that there can be no vested right in the anarchist to carry under his coat the incendiary bomb or the bludgeon. There is so much that is admirable in the program commented upon, that it is to be regretted that it is marred with the advocacy of principles which are fundamentally incompatible with those which constitute the foundation-stones of American institutions.

A farmers' program of reconstruction

The agricultural interests of America also have formulated their ideas of future progress. A farmers' National Conference on Reconstruction was held in Washington, D. C., in January last, which was attended by representatives of state grangers, state farmers' unions, the American Society of Equity, the Ancient Order of Gleaners, the National Non-Partisan League and a number of smaller organizations, at which a program for economic reconstruction in American and for international reconstruction was unanimously adopted. As was natural, it laid stress upon methods of securing employment in agriculture for returning soldiers and sailors, and adopted a declaration of certain principles which it regarded essential to the successful prevention of future war among which are the following:

(1) Recognition of the common interests of the working people of all countries regardless of the form of political government under which they live.

(2) International control over international trade and international investment.

(3) Freedom of production and uniform and equal free exchange between all peoples.

(7) Complete and direct control by the peoples of every established country of their own government.

(8) Unrestricted passage for legitimate commerce over land and sea.

(9) War must be made democratic by the agreement of all nations to declare war only by the majority vote of all, men and women.

It also declared for

living wages to those engaged in industry, commerce, trade, mining, rail-roading, and in all other legitimate activities as of direct benefit to farmers because they increase the purchasing power of those so engaged, and not only increase the efficiency of those workers, but provide the most economic and advantageous market for farm products—a home market.

Proposed international labor bureau and annual Conference

A consideration of these various recommendations of the organizations of the workers in England, France and America, will afford a better appreciation of the meaning and effect of the provisions contained in the Convention, creating a permanent organization for the promotion of the international regulation of labor conditions, which has been adopted as a part of the treaty of peace by the Paris Conference.

Article XXIII of the amended peace Covenant declares:

Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the members of the League (a) will endeavor to secure and maintain fair and humane conditions of labor for men, women and children both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary industrial organizations. . .

It was with such an end in view, that the Peace Conference, on January 31st, appointed a commission

to inquire into the conditions of employment from the international aspect, and to consider the international means necessary to secure common action on matters affecting conditions of employment, and to recommend the form of a permanent agency to continue such inquiry and consideration in co-operation with and under the direction of the League of Nations.

Organizations of labor in different countries have come more and more to realize that high wages and opportunity for advancement in one country serve to stimulate immigration from countries where conditions are less favorable. The great influx of cheap labor from Europe into America in the past operated to keep down wages and to retard improvement in conditions under which men, women and children were employed in industry in the New World.

One of the ends sought to be accomplished by practically all of the programs referred to, is the removal of the disparity of conditions of labor in different countries, with the resultant tendency to immigration. The removal from the European countries of restraints upon individual freedom and the furnishing of better opportunities for advancement than heretofore have existed may, and doubtless will, check the tendency to leave home and country and seek improved conditions in the American states. The effect of this diminution or cessation of immigration upon the future growth and development of America is a matter for serious speculation. It would be a sad paradox if the effort to bring about an assimilation in each country of conditions affecting labor in other countries should result in such interference with opportunity for individual advancement and the expression of individual capacity in this country, as, not only to remove the great incentives to peoples of other lands to seek their fortunes here, but to check the development of American civilization and the enjoyment of opportunities for advancement and improved condition, which in the past have resulted in the wide diffusion of wealth and the establishment of a higher general standard of living than ever attained in any other country or age.

The Convention for the permanent International Labor Conference recites the conditions which prevent the existence of social justice in the world to-day, in the following language:

Conditions of labor exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of these conditions is urgently required; as for example by the regulation of the hours of work, including the establishment of a maximum working day and week, the regulation of the labor supply, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease and injury arising out of his employment, the protection of children, young persons and women, provision for old age and injury, protection of the interests of workers when employed in countries other than their own, recognition of the principle of freedom of association, the organization of technical and vocational education, and other measures.

The international body which is created by the Convention primarily is to serve the useful purpose of facilitating the inter-

change of information and opinions between the representatives of different nations on all subjects relating to the international adjustment of conditions of industrial life and labor. It also is directed to discuss and submit for the consideration of the different powers represented by its membership, propositions for legislation or for treaties respecting the subjects considered; and where these propositions shall have been adopted and shall have found expression in law or treaty, to follow up their application and to call attention to any failure to enforce their provisions, bringing it, if necessary, before appropriate courts of international justice and directing against any nation, where it seems proper, measures of an economic character prepared to compel compliance with the laws or treaty obligations, which it has freely and of its own accord adopted.

A concrete idea of some of the objects aimed at, is furnished by the program adopted for consideration at the first meeting of the conference appointed to be held in Washington, D. C., in October next. This program involves the consideration of the following subjects:

1. Application of the principle of an eight-hour day or forty-eight-hour week.
2. Question of preventing or providing against unemployment.
3. Women's employment.
 - a. Before and after childbirth, including question of maternity benefit.
 - b. During the night.
 - c. In unhealthy processes.
4. Employment of children.
 - a. Minimum age of employment.
 - b. During the night.
 - c. Unhealthy processes.
5. Extensions and application of the international conventions adopted at Berne in 1906 on the prohibition of night work for women employed in industry and the employment or use of white phosphorus in the manufacture of matches.

A further resolution which was adopted by the International Labor Commission will hardly be received widely with favor in this country. It recommends that as soon as possible an agreement shall be arrived at between the high contracting parties with a view to endowing the International Labor Conference, under the auspices of the League of Nations, "with power to take under conditions to be determined, resolutions possessing the force of international law". There is a very general opposition in the United States to the creation of any

supersovereignty over our government in the formation of any international body, and in the proposed Covenant of the League of Nations, reliance is most wisely, it seems to me, placed rather upon the effect of discussion, interchange of opinion and suggestion, than upon coercion, to accomplish the beneficent ends in view. The method would better be adopted respecting the Labor Convention, which is embodied in the Constitution of the League of Nations. The agreed object of the International Labor Convention is, through discussion and exchange of information, to awaken a more just recognition among all the nations, of the rights and the duties of their communities with respect to men and women who labor with their hands for their daily bread. Far better results can be accomplished through the quickening of international conscience in this regard, than by attempting to impose rules over sovereign peoples by the resolutions of international conferences. There must and will be differences in the attitude of various nations toward the ends and objects aimed at by these organizations. Each government must determine for itself how far it will adopt the recommendations of the International Conference.

With the ultimate purpose of achieving a better share in the proceeds of industry for the workers than they have had in the past, few will be found to disagree. But it is perhaps timely to observe that a great commonwealth is made up of many elements, and that wage earners and farmers, vast as is their number, just their claims, and important their consideration, do not compose the whole, or even a majority of all the inhabitants of the land, and an attitude of defiance of organized government is not the best method through which to attain a maximum degree of satisfaction with government by any one particular class.

Fallacies and Conclusions

Three fallacies seem to be involved in most of the programs thus far presented: (1) That better conditions for the commonwealth than those which prevail, can be secured by entrusting government with the ownership and conduct of important industries; (2) that the policy of giving control to organizations of workers over the means of conduct of industry can result in the permanent betterment of such industry;

and (3) that the grant of larger wages to the workers will reduce the cost of living and increase the general prosperity.

In England, the workers seem to have been more impressed with the efficient conduct of industry during the war through the close cooperation of employers, workers and the government, than with the abnormal and exceptional conduct of such industry and the improbability of its effective continuance in time of peace. After all, competition and the incentive of profit must and will remain the most efficient causes of industrial and commercial prosperity. Great as is the value of brawn, the mind of man, in the future as in the past, will continue to be indispensable to the successful conduct of all great enterprises. Governmental ownership and operation, which exclude both competition and profit, must gradually result in inefficiency and stagnation. No candid student of the past will advocate a return to the old system of unrestricted control of workers by employers, which resulted in great injustice and in the abnormal concentration of the proceeds of industry. The prosperity of the country rests upon securing a just balance between the right recognition of the share of the worker in the profits of his industry and the necessarily greater profit to be allowed to the planning and directing brain.

A very wise provision was inserted, I believe through the influence of the President of the American Federation of Labor, in the International Labor Convention, to the effect that in no case shall any nation be asked or required, as the result of the adoption of any recommendation or draft convention by the Conference, to diminish the protection afforded by its existing legislation to the workers concerned. This will still leave America preëminent in the provisions made by the laws of state and nation alike for the proper protection of those who labor with their hands. A close comparison of the conditions prevailing in different countries, made under the auspices of the International Labor Bureau and emphasized in the conferences of the Convention, will, it is to be hoped, demonstrate to the workers of this country the great benefits which its institutions have secured to them, and to employers, the advantages which they have enjoyed and will continue to enjoy if their dealings with the men who labor for them shall be characterized by a constantly increasing sense of justice and a willingness to grant fair play.

THE MANDATORY SYSTEM UNDER THE COVENANT OF THE LEAGUE OF NATIONS

ALPHEUS HENRY SNOW

THE proposed Covenant of the League of Nations declares in its preamble that the object of the signatory powers, in uniting themselves as a League, is "to promote international cooperation and to achieve international peace and security." This universal object can only be accomplished by the League exercising such a moral influence over the civilized states external to it and such an advisory or actual control over all the backward peoples of the world, or at least over such of them as may, by common consent of the members of the League, be placed under its tutelage, as will bring about a universal cooperative relationship between all states and peoples.

The Covenant, therefore, properly makes provision for these two classes of external relations of the League. In Article XVII and Article I arrangements are made for settlement of disputes between the League and its members and external civilized states and for admitting such states into the League. In Article XXII and Article I arrangements are made for the administration by the League of such regions inhabited by backward peoples as may be ceded to it by the members of the League having claims to the title and sovereignty of the regions, and for admitting to membership in the League any backward people which shall have attained the position of "a self-governing colony" of the League and be otherwise qualified for membership.

As respects those regions which are at the present time colonies, protectorates or dependencies of any one of the civilized states, whether the state is a member of the League or not, the Covenant is silent except that Article I makes eligible for membership in the League a "self-governing dominion or colony" of any civilized state which is otherwise qualified.

It is the provisions of Article XXII relating to the administration by the League of regions inhabited by backward

peoples and ceded to it by the member states, that are to be considered under the title "The Mandatary System". This name arises from the fact that under the system established by this Article, a member state participating in the tutelage by the League of the backward regions ceded to it is required to act as a mandatary on behalf of the League.

The paragraphs of Article XXII which establish the general principles of this new system and determine the original territories to which it shall be applied, are as follows:

To those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the states which formerly governed them and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well-being and development of such peoples form a sacred trust of civilization and that securities for the performance of this trust should be embodied in the Covenant.

The best method of giving practical effect to this principle is, that the tutelage of such peoples should be entrusted to advanced nations who by reason of their resources, their experience, or their geographical position, can best undertake this responsibility, and who are willing to accept it, and that this tutelage should be exercised by them as mandataries on behalf of the League.

In every case of mandate, the mandatary shall render to the Council an annual report in reference to the territory committed to its charge.

The degree of authority, control or administration to be exercised by the mandatary shall, if not previously agreed upon by the members of the League, be explicitly defined in each case by the Council.

A permanent commission shall be constituted to receive and examine the annual reports of the mandataries and to advise the Council on all matters relating to the observance of the mandates.

It is noticeable that though the title and sovereignty of the regions conquered by the allied and associated powers in the late war is assumed by the language of the provisions quoted to be in the League, there is no formal cession or conveyance to the League of the claims of the states to these regions. The reason for the absence of formal words of cession seems to be this: These regions, though in fact each of them was conquered by some one or a few of the allied and associated powers, are, nevertheless, in contemplation of the law of nations, under the terms of the alliance and association, the joint conquest of all; and the military occupation of any of these regions, though in fact established and maintained by one or a

few of these powers, inures in law to the benefit of all and confers no individual sovereignty upon the state or states which actually made the conquest or which maintain the military occupation. The sovereignty of the former sovereigns of these territories has, as the Article says, ceased, and the sovereignty of these regions is in the allied and associated powers collectively. When, therefore, they unite themselves into a League, the League is regarded by them as succeeding to their collective sovereignty by operation of law and by their consent, so that no formal cession or quit-claim is necessary, and a mere recognition of the passing of their collective title to the League is treated as sufficient.

The exercise by the League of the sovereignty over these joint conquests of the allied and associated powers, as their successor, by operation of law and their consent, is, it will have been noticed, subjected by the provisions of Article XXII, above quoted, to "securities" or "safeguards" which the Article declares to be indispensable and "embodied in the Covenant"—evidently intending that these "securities" or "safeguards" should be a covenant running with the land, analogous to what the United States in its Ordinance for the Government of the Northwest Territory of 1787 called "Articles of Compact", having the sanctity of a fundamental constitution of the regions designated and all similar regions and applying to these regions for all future time, so long as the population may continue to require tutelage.

The first of these safeguards is, that the sovereignty of the League over these regions shall be true sovereignty, that is, that the governmental power exercised by the League over the backward peoples committed to its care shall be exercised as a "sacred trust of civilization", in order to promote "the well-being and development" of the peoples governed. There is thus assured to the peoples of these regions, in the Lincolnian phrase, government of and for the people, and also, so far as may be practicable, by the people,—and, in the Rooseveltian phrase, government which shall help the peoples governed to help themselves.

The second of these safeguards is, that the League shall administer its trust for the tutelage of its dependent regions through the instrumentality of one of the civilized states, in

every case where such administration is possible. Direct administration by the League is not prohibited and evidently cannot be, since the states are all at liberty to decline to act for it; but administrative tutelage through a state is declared to be "the best method".

The system of mandatory administration is safeguarded in various ways,—first of all, by the legal terms descriptive of the legal obligations assumed by the League and by the state which acts for it. The League is described as the "trustee" of backward peoples committed to its charge, and the state which acts for it is described as its "mandatary". A trustee, under all systems of law, is without power to delegate his trust; hence the League is by necessary implication prohibited from delegating to any state its trustee sovereignty over backward peoples committed to its charge. It must forever retain its responsibility as trustee for such peoples. Its dealing with states regarding such peoples is limited to appointing one of them as its "mandatary",—that is, as its agent, to do in its behalf what the League may deem proper in order to enable it to perform its trust, and to serve without remuneration,—a mandate being a form of agency in which the agent acts without right to remuneration or profit, though without liability to loss. There is thus contained in the term "mandatary" an implied prohibition against exploitation of backward peoples by mandatary states or their citizens.

Other safeguards for the faithful execution of the trust assumed by the League in behalf of "civilization"—civilization being thus personified as the supreme trustee of all backward peoples—and in favor of backward peoples placed under its jurisdiction, are established in the provision that no state shall be eligible as mandatary of the League except one which is "advanced", and, therefore, presumably honest; which has "resources", and is, therefore, presumably able and willing to make needful advances of money and credit; which is "experienced" and, therefore, presumably able to succeed in its tutorial work; and which has an appropriate "geographical position", so that it may presumably do the work most conveniently and may have an interest in making a success of it. Still other safeguards are, that the mandate shall be "explicit" respecting the "degree of authority" to be exercised by the

mandatary; that the mandatary shall make annual reports to the League; and that it shall at all times be under the surveillance of the League through a commission of surveillance appointed by the League.

There are paragraphs of Article XXII other than those above quoted containing safeguards which especially interest the backward peoples, since they determine the régime to be applied to each according to its stage of development. These paragraphs are as follows:

The character of the mandate must differ according to the stage of the development of the people, the geographical situation of the territory and other circumstances.

Certain communities formerly belonging to the Turkish Empire have reached a stage of development where their existence as independent nations can be provisionally recognized, subject to the rendering of administrative advice and assistance by a mandatary until such time as they are able to stand alone. The wishes of these communities must be a principal consideration in the selection of the mandatary.

Other peoples, especially those of Central Africa, are at such a stage that the mandatary must be responsible for the administration of the territory under conditions which will guarantee freedom of conscience or religion, subject only to the maintenance of public order and morals, the prohibition of abuses, such as the slave trade, the arms traffic and the liquor traffic, and the prevention of the establishment of fortifications or military and naval bases and of military training of the natives for other than police purposes and the defense of territory, and will also secure equal opportunities for the trade and commerce of other members of the League.

By these provisions the sovereignty of the League over these regions is apparently regarded as a paramount sovereignty or overlordship; the ordinary sovereignty or lordship being regarded as vested in the people under tutelage when it is of the first grade, and in the mandatary state when the people is of the second grade. In solving the legal problems of the future which may turn upon the question of sovereignty over these regions, it will apparently be necessary to resort to the principles of the feudal system. The League, as paramount sovereign and overlord, would appear to have, under these provisions, the sole duty of protecting from external aggression all the backward regions committed to its paramount sovereignty; the mandatary state, as ordinary sovereign or lord, having only the duty of tutelage or education. The safeguards provided for peoples of the second grade are substantially those

established for such peoples by the action of the Berlin African Conference of 1885 and the Brussels African Conference of 1890.

The remaining paragraph of Article XXII other than those above quoted, concerns a class of peoples under the trusteeship of the League which by reason of their contiguity to the mandatory state and their consequent manifest destiny to be incorporated into its domestic body, or by reason of their insularity, diminutiveness, or other peculiarities, are permitted to be subjected by the League and the mandatory state to a special régime. The words of this paragraph are as follows :

There are territories, such as Southwest Africa, and certain of the South Pacific Islands which, owing to the sparseness of their population, or their small size, or their remoteness from the centers of civilization, or their geographical contiguity to the territory of the mandatory, and other circumstances, can be best administered by the mandatory as integral portions of its territory, subject to the safeguards above mentioned in the interests of the indigenous population.

In the cases mentioned in the above paragraph, the paramount sovereignty will still, of course, remain in the League and the regions specified will not, in contemplation of the law of nations, constitute an integral part of the territory of the mandatory state. They will simply have a form of administration similar to that which they would have if they were integral parts of its territory. All the constitutional safeguards under the constitution of the mandatory state which would apply if they were integral parts of its territory, will be applicable and also all the constitutional safeguards provided in the Covenant which are for the benefit of the indigenous population.

The Covenant, it will have been noticed, contains no express provisions concerning the revocation of a mandate given by the League to a state. That the League has this power, however, there can, it seems, be no doubt. A mandate, like every form of agency, is revocable at the election of the principal. The authority given to the League by the Covenant to appoint and commission states as its mandataries and to supervise the states which have accepted its mandate, would seem necessarily to imply the power to revoke the mandate. That the League will not revoke a mandate without just cause and without a judicial determination, is to be assumed.

From the foregoing survey of the safeguards provided in the Covenant to insure the harmonious correlation of all the conflicting interests which will exist concerning backward peoples committed to the charge of the League and administered by it through a state as tutor, it is evident that these safeguards are inadequate in one important respect, namely, as respects the principles to be observed in the selection of the mandatory state. All that the Covenant says on this subject is that those states only shall be eligible to receive a mandate of the League which are "advanced", which have "resources", and "experience", and which have a "convenient geographical position". These safeguards are all good, but in view of existing international conditions and the history of the dealings of civilized states with backward regions, they are clearly not sufficient. There must also be rules making states ineligible in certain cases, if "the mandatory system" is to become, in fact, a part of the great plan "to promote international cooperation and to achieve international peace and security". As rules of ineligibility needful to effectuate this prime object of the League, the following may be suggested:

First, that a conqueror state should be ineligible for a mandate of the League for the tutelage of conquered regions unless the war in which the conquest was made was waged on the declared issue of misgovernment of the indigenous population by the vanquished state. A civilized state which in a war with another civilized state fought on issues of any other kind shall have seized and occupied the colonies or dependencies of its opponent inhabited by backward peoples should not be permitted to receive benefits from its military seizure and occupation of these backward regions by turning them over to the League and receiving them back as its mandatory. To permit a conqueror state to be eligible for a mandate in such a case must necessarily tend toward the perpetuation of the old rule, so prolific of war, that backward regions are pawns in the game. At the Berlin African Conference of 1885, the United States earnestly urged the establishment by the conference of a rule of ineligibility such as is here suggested as respects Middle Africa.

Second, that a state which has an extensive domestic territory or an extensive external domain should be ineligible for a man-

date. To permit a member-state of the League which has a domestic territory far exceeding in extent the average territory of the member-states, or which already holds and governs as its colonies, protectorates or dependencies so large a part of the world as to give it a monopoly in fact of the economic life of the world and a virtual world dominion, to be eligible to accept a mandate of the League for the tutelage of additional regions would tend to increase the opportunities of such a state for world-monopoly and world-dominion and would also tend to enable the state to control the League for its own benefit. The "mandatary system" is capable of being used so as to have a very considerable effect in bringing about an equalization between the member-states of the League and should undoubtedly be used, so far as practicable, to effect this very desirable result.

Third, that a member-state of any kind of a federal unity existing within the League should be ineligible for a mandate. To permit a state which is a member of a federal state, or of a federal empire, or federal commonwealth, to be eligible for a mandate of the League would either place such a state in opposition to the federal state, empire, or commonwealth of which it is a member, or if the composite state assented, would enable the composite state indirectly to obtain the mandate for itself.

It should also be provided in the Covenant, as an additional and general safeguard to the whole "mandatary system", that the selection of mandataries of the League should be made only in times of peace, through a judicial proceeding, in which the qualifications of every state will be weighed on its merits; in which the tribunal charged with making the selection will be prohibited from considering any claim based on conquest, military occupation, or other right of war; and in which there will be taken into consideration and brought into harmony all the various interests involved—those of the backward peoples, those of the League, those of the states eligible for mandates and willing to act, and, above all, the general interests of civilization and humanity. The League, in the exercise of its "trusteeship" in behalf of "civilization" for backward peoples, stands in the world in a position analogous to that which the chancellor or the probate judge holds in the state

when he is sitting to determine the matter of appointment of a curator for a person not of sound mind, or of a guardian for an infant, in order that, for the benefit of the backward person himself, of his relatives, of the state, and of the civilized world generally, a tutorial and corrective influence may be exercised, so as to restore the unsound mind to a normal state of soundness or to develop the immature mind to a sound maturity. Such proceedings are in all systems of law regarded as of the highest importance to the sound life of the community and are surrounded by all conceivable safeguards. The principles of the private law concerning curatorship and guardianship form a proper source from which to derive the principles and practices of the "mandatary system" by analogy, so that it shall fit into the general plan of the League and enable the League to effectuate its object.

However novel the "mandatary system" may appear to those unfamiliar with international law and colonial science, it contains no novelty for publicists. Its adoption was an inevitable next step in a long course of evolution beginning with the action of the Congress of Vienna in 1814. At that Congress it was resolved that all the eight members of the Congress, whether possessing colonies in Africa or not, were entitled to participate in the consideration of measures for co-operative action in abolishing the African slave trade, because, as they held, the subject of the relations of civilized states with backward peoples was one affecting public morals and humanity, which was to be determined by all the powers collectively. From this action, the necessary conclusion, which was soon made, was, that the backward peoples of the world are, by the law of nations, under a curatorship or guardianship of all civilized states, collectively and individually. This latter principle was applied, or at least was purported to be applied, at various times during the century preceding the Great War, in the dealings of the Concert of Europe with Turkey, Greece, Egypt, the Balkan States and Morocco; in the dealings of the Concert of Europe and the United States with Japan and China; and especially in the dealings of the Concert of Europe, the United States and the Oriental Powers with Middle Africa at the Berlin African Conference in 1885 and the Brussels African Conference in 1890. The League of

Nations, as the trustee in behalf of civilization, in favor of backward peoples, is the natural successor of these various "concerts" of civilized states which from time to time—with little success, it must be admitted—have attempted to represent "civilization" and bring about a cooperative relationship between the civilized and the backward peoples. Condominion of backward peoples by two or more states was proved to be impossible in the case of Egypt and the Samoan Islands; and, for a quarter of a century preceding the Great War, it had been recognized that the best method of tutelage of backward peoples was for all the civilized states collectively to assent to some one civilized state placing itself in care of each backward people, and for them all collectively, acting by way of "concert", to hold that state responsible as their mandatory to perform the trusteeship of civilization for the tutelage of the backward peoples. From acting by way of "concert" to acting as now proposed, by way of "league" was but a short step, and one which was sooner or later certain to be taken.

The question of the desirability of a state accepting a mandate of the League under the Covenant in its present form, has been much discussed. This is really a question whether the general safeguards of the League which are now provided by the Covenant, are adequate to prevent perversion; and whether, even if they are so on paper, the League is likely to be perverted in fact, and the Covenant made an instrument of world monopoly and world domination by one state or by a group of states. Under the Covenant in its present form the whole power of the League is concentrated in the Council and Assembly—virtually in the Council. These organs of the League have power not only to advise concerning international cooperation in peaceful activities, but also to advise and superintend the coercion of a member state by the other states so as to compel it to desist from alleged anti-cooperative action and make reparation therefor. The peace powers and the war powers of the League are thus in the same hands. A state which, on account of its geographical position or for other reasons is in danger of having this war-power of the League turned against it on grounds deemed adequate by these organs of the League acting at their discretion, might well decline to accept a mandate of the League or any other international

responsibility likely to weaken its defensive power. It would seem that the Council and Assembly of the League should be confined to advising the member-states concerning peaceful cooperative action, and that when it appears to be necessary to coerce a state for anti-cooperative action, this question should be determined by an extraordinary judicial assembly of the other states summoned in a predetermined manner, and that this same extraordinary assembly should, in case it decides adversely to the state charged with anti-cooperative action, advise and control the necessary joint constabulary and corrective measures taken by the states thus allied against the state adjudged to be an international wrongdoer. Assuming that the Covenant will, at the time it goes into effect, be adequate to institute a League which will in other regards accomplish the declared object of promoting international cooperation and achieving international peace and security, it would seem that the "mandatary system" would be a fitting feature of the general plan, and that, if there could be incorporated in the Covenant the additional safeguards of the system above outlined, there would be reason to hope it might be successful.

That there would be much risk and little honor in the assumption, by any of the powers which are the conquerors in the late war, of the mandate of the League over the backward conquered regions to which alone the Covenant in its present form relates, seems certain. The history of all civilized states in dealing with backward peoples is deeply stained with "atrocities", and comparison cannot now be admitted—especially comparison based on interested testimony gathered during the war. An examination of the literature of the world before the war, will, it is believed, show that the publicists of the powers which are now in the position of victors, found no fault with the title of the powers which are now in the position of vanquished, to the backward regions under their jurisdiction; and that in estimating the comparative value to civilization of the colonizing activities of the various powers, colonial experts recognized as highly valuable the work done by the now vanquished powers. The case of Turkey is, of course, that of a sick man, whose sickness has been made worse by the conflicting ministrations of his alleged physicians. A state

accepting a mandate for the care of such a patient would need to be assured that the physicians previously in charge of the case would voluntarily and entirely withdraw.

If the "mandatary system" should prove successful in the case of the backward peoples committed to the care of the League by the Covenant, it would doubtless gradually be extended to include the colonies, protectorates and dependencies of civilized states inhabited by backward peoples. Each such state which desired to act honestly as respects the backward peoples dependent upon it, would have a strong motive to relinquish its dependencies to the League in case it could receive them back as mandatary, for the protection of these regions against external aggression would then fall upon the League. The vast navies now kept up by colonizing states as "insurance" against the loss of colonies could then be dispensed with, and unwillingness of a colonizing state to assume toward its colonies the relationship of mandatary of the League would give rise to the suspicion that it desired to exploit the backward peoples under its control and required its navy to insure freedom from interference in its work of exploitation.

The "mandatary system" is, it is evident, a necessary part of the new system in which the civilized states recognize themselves as having with each other social relations of a legal nature, as well as those purely contractual and economic relations with which international law proper is concerned. There thus seems to be coming into existence, through the establishment of this "society of the civilized states", as The Hague Conferences called it, by international convention, a new division of the general public law, distinct from international law proper—a social law of nations, of which the "mandatary system" forms a part.

INTERNATIONAL LABOR LEGISLATION AND HOW IT CAN BE ENFORCED IN THE UNITED STATES

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IN discussing new international relations, in discussing a new condition of relations which is to govern the conduct of men and women, beginning, as we hope to, upon a new basis, there is no principle that should deserve better, higher and deeper consideration than that of creating standards which are to be recognized alike by all the great nations of the earth with reference to men, women and children in industry. The greatest asset which any nation has, and, therefore, the greatest asset which all of the nations of the world have, is not its mines, or its gold, or its silver, or its manufactures—not those tangible things that men and women prize so highly—but the human beings that make up the nations, the men and the women and the children. It is fitting, therefore, in considering any treaty of peace, or any league or covenant which is to govern the nations of the earth, to consider the future of these assets, and what can be done to raise their value if you wish to consider the question only commercially.

Year by year, in the different nations of the earth and the different states of this nation, we have considered and endeavored to perfect means and measures by which men and women who labor shall labor under conditions and under standards which will improve their lives,—which will not only make them happier, but make them better able to render greater service to the nation at large and in particular to those who employ them. We have endeavored in all the states to create standards by legislation, so that men and women will have a chance to be better and happier men and women.

Internationally we may consider five or six great cardinal principles which will make for better conditions under which men and women and children may live and labor, and which in the main will be the subject of international cooperation

or international agreement. First, perhaps, and foremost, should be considered the future citizens of all countries and what can be done by international cooperation to conserve these future citizens of the state, the children. We all know how in the dark ages, not so many years ago, the labor of children was exploited,—how children began their daily labors often at three and four and five years of age, when they could scarcely go to work but were compelled to, and how year by year legislation has added a year here and a year there, until the legal working age in all civilized countries has now been raised to at least fourteen years. We all know, too, how legislation which curbed the right to make children work at a very early age was attacked in all the countries, and particularly in England and here, upon the ground that it interfered with a man's liberty, that it was a man's or a woman's or a child's liberty to work at whatever age he pleased, and no concern of the nation or the state. As the foundation, therefore, of all international standards, some agreement may well be arrived at among all the nations, that no child—at least under the age of fourteen years,—should be permitted to work. If we adopt such a standard, if we begin with that basis, by an agreement among the nations of the earth, enforced by co-operation, enforced by example, we will be building for the future and for the making of greater nations than we ever have had in the past. With a limitation like that, each child will have a better training, will be better equipped for life and will be able to enter upon their industrial and civic life with a foundation of knowledge, which many children at this time do not possess.

There should also be a provision that children between the ages of fourteen and sixteen should be limited to certain kinds of work, should only be allowed to work a certain number of hours, and that there should go hand in hand with work between those ages some system of training, either in the factory or in the workshop, or connected with it, so that the child, if it must labor, will be enabled with the help of the state and the nation to finish out its training, and so that all children, as far as the state can assist them to do so may enter upon life with a proper training.

The next of these cardinal principles, as I may call them, which may be a subject of international agreement, is that of

some limitation of hours of labor. There again we meet with the claim that men have a right to sell their labor for as long and as many hours as they please. It is all they have to sell, and they claim to be allowed to sell it at such price and on such terms and conditions as they please. But there, again, we must not forget that the state and the nation have rights that transcend those of the individual, because the individual who works or is permitted or forced to work hours beyond what men should be permitted to work, becomes a liability to the nation. Instead of becoming a help, he becomes a drag, and, therefore, the nation has a real interest and a right to limit undue and harmful labor and to say by international agreement whether it be forty-eight hours per week or whether it be fifty-four. Whatever decision may be the result of conference and agreement, some standard should be fixed, so that all the men of the earth—provided local conditions do not interfere—should have one common standard, one universal standard of hours of labor, and thus each man in each nation may have before him a common goal and an equal opportunity.

The next, and perhaps going hand and hand with this last principle, is that of seeing that each man and woman receives, not a minimum wage—I never liked the term “minimum wage”—but receives a living wage, because it is the right of men and women to receive a recompense in return for labor sufficient for them to support life upon. We used to believe that there was an economic principle, that labor received its due, if it was entitled to its due, but we know now that sometimes people are unable to protect themselves, and while even today in many of our American states we hesitate to enact legislation which provides for a living wage for men, in many other states we have seen the justice and the wisdom of providing for a living wage for women, so that they should have the protection which legislation would give them, so that they might be guaranteed, not a minimum wage, but a wage sufficient to support life. If international agreements can accomplish anything, if we are going to build from now on for a better world because of the lessons which the war has taught,—lessons which have been learned and are being learned, one international standard is vitally essential—not from the standpoint of the workers, but from the standpoint of the general public that a living wage should be paid to each worker.

There should also be made some provision by which each worker, if the enterprise and local conditions permit—and it has been demonstrated that almost every business can easily be regulated to permit this—that each worker should receive at least one day's rest in seven. That was thought at one time to be a measure which encouraged idleness. People never looked beyond the mere statement of the fact that every man or woman wanted a day of rest, whether it was for the observance of religious rites, or merely because a rest was desired for reasons of health. But as we study more and more the problem of conserving human life and of preventing the deterioration and break-down of men and women, we see more clearly the necessity, especially in the great manufacturing industries—of giving to every man and woman one day, one full period of twenty-four hours in the seven days of the week when all labor shall cease, and when man or woman may be privileged to devote himself or herself to such pleasures or enjoyments or relaxation as he or she sees fit.

Another great cardinal principle, and more and more one that we see the necessity of each day as we recognize that men and women are in many ways alike, is that men and women shall receive equal pay for the same work. If we ask a woman to do the work which a man does or has done, and she does it as well as a man, there is no reason under the sun why she should not receive the same pay. We could make no better ending of this brief statement of cardinal principles underlying international labor standards than to say that men and women, if they are of the same ability, if they can perform the same tasks and perform them equally well, should be equal as far as compensation is concerned.

I think this briefly outlines what may be considered the cardinal underlying principles of international agreement respecting men and women and children who are employed. I may call them, not cardinal principles, but humane principles, because they are founded upon a basis of humanity. Every one of them has as its foundation some human rights, reasonably short hours of work, a regular period of rest, equality of pay, the prevention of the premature labor of children. These are principles which can be easily embodied in a single page of any covenant of peace or league of nations. They will

appeal, not only to the workers of all the nations of the world, but they will appeal to all the people who stand behind the nations and of whom nations are made.

We read to-day much about the unrest of labor. In the learned paper and the exhaustive paper which the former Attorney-General of the United States has just read, he tells of how the English labor representatives said, "We will no longer return to conditions as they existed before the war, we will not go back and take up the thread of life as it was woven and spun for us before this great war begun. We must have better conditions". It is true that all over the world, wherever men and women gather, and wherever men and women think about their conditions, that same cry goes forth, "We cannot go back", "We cannot begin where we left off before the war began". We must live under different conditions of life, and the only way those conditions can be made different and better and be enforced is by international agreement, because if all the people are treated alike in these conditions of labor throughout the world, no man can complain that one nation profits by lower conditions than another. No state need have greater competition with the employers of another state, because the hours of labor are different, because children may be employed in one state for longer hours or at different ages than they can be employed in another; and if, by international agreement and by cooperation among the nations, principles like these are established, we will begin, as I have said before, this new life upon a real, solid and lasting foundation.

We will do away, too, with much of the labor unrest, because labor unrest very often has its roots in the early and premature employment of children, in long hours of labor, in bad working conditions. A child who goes to work, or who is forced to work with an improper training, with nothing before it on its horizon, but more and more endless hours of toil, without hope for the future, easily falls a prey to unrest and dissatisfaction. At one blow you do away with much of the cause of unrest, with much of the ground of dissatisfaction, if all children and young persons are not permitted to begin labor until they have received what the state should give them, what every child is entitled to have from the state, a proper foundation, a proper training upon which to build future man-

hood and womanhood. We are living to-day in momentous times, in times when things like these of which I have spoken are not unreasonable to expect. We are turning a page of history, a page upon which has been written wonderful deeds, it is true, but they have been the deeds of force, they have been the achievements of might. We are glad to turn that page today and turn to a more wonderful and still fairer page, a page on which is being written, not the triumph of force, not the victories of might, but upon which is being written the achievements and the victories of peace and the triumph of right. Upon the page in letters that are everlasting, letters never to be erased, shall be written justice to all men, and that those things of which I speak, the conditions under which men and women and children labor, shall be safeguarded and become the concern of the organized society of which we all are a part. Only in this way may we hope for a better world in the future peopled with better men and better women and better children working under conditions which will no longer be such that men may fear,—no longer will men even speak of unrest or dissatisfaction,—but which will inaugurate that era of peace which we hope this great war, with all its sacrifices has forever won.

[443]

INTERNATIONAL LABOR STANDARDS AND LEGISLATION

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LORD READING, the retiring British Ambassador, as he sailed from New York, paused at the dock long enough to tell the newspaper men that the greatest thing that had come out of the Paris Peace Conference was the agreement on the labor question. President Wilson after talking to us most eloquently during the past year or two about the New Day that was to follow this great war, cabled to this country on May 1 that in his opinion one of the greatest achievements of the New Day was the incorporation of labor principles in the Peace Treaty. Mr. Gompers, the President of the American Federation of Labor, who was signally honored by being made chairman of the International Labor Legislation Commission in Paris, said, upon his return to this country that it was the greatest privilege to have had the opportunity to help in formulating this plan which is expected to be of great good to the world. Senator Henry Cabot Lodge came up to New York a few days ago and learned, apparently for the first time, of these labor provisions, which had been published in many of the newspapers about a month earlier. He afterward made the prediction in the United States Senate that when employers and employes in this country discover what he has learned—there is going to be something of a sensation.

But what are the proposals which have called forth such expressions from these men of great responsibility? The provisions cover such things, for example, as a statement that labor should not be treated merely as merchandise. Mr. Gompers, a few years ago, upon the adoption by Congress of the Clayton Act, including the clause "Labor is not a commodity", announced that that was "the Charter of Labor's Freedom". After Mr. Gompers left Paris recently, the wording of this clause in the statement of principles was changed

somewhat. It now reads something like this: "Labor should not be treated merely as merchandise".

The second principle relates very properly to the right to organize both labor unions and employers' associations. There is need for that in other countries as well as in our own. The prohibition of child labor is another matter that does not seem so startling to many of us in this country. A living wage for female workers has already been ordered by Congress for the District of Columbia and is now in effect in a dozen states. The forty-eight-hour week, or the eight-hour day, is in principle pretty universally accepted here, although I should point out that during the legislative campaign in New York State this last winter, where the forty-eight-hour week for women and minimum wage board for investigation of living wage for women and industrial workmen's health insurance, had already been passed in the New York Senate by a large majority, the Speaker of the Assembly, through the Republican caucus, refused to let these measures come to a vote, saying that they were contrary to the principles of Republicanism. To some of us Republicans who had been working pretty conscientiously on this program, Speaker Sweet's announcement came somewhat as a shock. Perhaps his edict is indicative of a lack of appreciation in this country that the war has made some changes in the minds of the people, at least in other countries. Perhaps it should serve notice upon us that we have still got work to do through private organizations in order that the representatives of the people as government officials, may appreciate that there is need for placing this country on a level with certain protective standards which have long been in operation in other countries.

One of the things which Senator Lodge thought was startling was the development of an international labor bureau with powers of investigation. Also that there was to be created an international representative conference in the interest of all employers and employes for the purpose of formulating minimum standards to be put into operation if the various countries accepted its recommendation. But we have had since 1901 an international labor bureau which is largely supported by twenty-two governments. It is merely semi-public

in character. We also have had many international labor conferences for the discussion of labor legislation. We have already in existence some twenty-five international labor treaties as the result of private organized effort of the Association for Labor Legislation since 1900. To one who has been interested in the details, as well as the principles of labor legislation, there is little to cause alarm in the nine labor principles which are incorporated in the Peace Treaty.

It is hoped that through international conferences year by year there will be further extension of these principles which in time will bring the backward countries abreast of those which have long been progressive.

Perhaps the greatest difficulty in the work of developing international minimum standards has been that after the delegates from different countries—official delegates and representative employers and representatives of the wage earners and social workers in general,—have come together, and have formulated standards, governmental representatives have shown a very great lack of appreciation of the need for such remedies. It is possible that by having official conferences made up, one-half of governmental representatives, one-quarter representatives of organized employers and one-quarter of organized employes, that there will be more inclination to go ahead. But this may be seriously questioned.

The attitude of the American representatives at Paris apparently was that very little could be done by America. I believe that we can do a great deal in the direction of co-operating with other countries through labor treaties, if we have the desire to do it. But surely, if our representatives are men who consistently throughout a whole lifetime have been opposed to the use of the legislative method in establishing minimum standards for the protection of the wage earners, we cannot expect very rapid progress in the immediate future. It is probable, however, that there is a growing appreciation of the need for international action which will protect both industry and the workers and that we will be able in time to make some definite progress. We find as we go to state legislatures with labor bills that representatives of the manufacturing industries very often come and say, "We are for this; we realize that it is essential for the health and welfare of the

working people, but we want this to be done *nationally*; we want a uniform national law." Then, when we have gone to Congress and have presented bills there and have had hearings before Congressional committees, employers' representatives have come and said, "We realize that this is important. It ought to be done, but it will put our industries in an unfair position in competition with the lower standards of labor of other countries". The Peace Treaty furnishes, therefore, an invitation for American industry to come forward and grasp this great opportunity to establish minimum protective standards for industry and labor throughout the whole industrial, producing world. It is strange that we have heard so little from the big associations of manufacturers on this subject. Here is an opportunity to meet this problem of competition at once and to deal with it in a big, practical, business-like way.

I have concluded that what we do through our Federal government in these matters is likely to depend upon how sincerely we wish to accomplish something along these lines; how much we appreciate that in other countries there are big movements leading to great changes; how much we appreciate the danger of simply interpreting President Wilson's speeches with reference to the New Day, as though they meant a new day in the sense of going backward rather than going forward.

THE POWER OF THE UNITED STATES UNDER THE CONSTITUTION TO ENTER INTO LABOR TREATIES

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THE Covenant of the League of Nations provides for international conferences which shall propose treaties to the states of the League for the joint regulation of certain labor questions. If the United States is a member of the League, and its representatives agree in conference that the regulation by international agreement of a particular question is necessary, as for example, that night work for women should be prohibited by all the signatory powers, the question arises at once whether, under our form of government, the treaty embodying the decisions of the Conference, can be constitutionally ratified by our government, and, if so, whether Congress can pass the laws necessary to carry it out.

Dr. Andrews¹ and Mr. Elkus² have already discussed the character of, and the reasons for, the regulations likely to be proposed; it remains for me to bring to your attention the less interesting, but, nevertheless, vital constitutional question. I shall not consider here whether it will be more advisable to adopt the other plan proposed in the convention, that the contracting governments agree to recommend the passage of legislation to carry out the reform proposed, a plan which to say the least is rather cumbersome in our system of forty-eight states with varying opinions in regard to their own interests and the economic advantage of the reforms suggested. If a treaty be possible, then there is a question of policy as to which method should be preferred in regard to each reform; if not, then the more cumbersome scheme must be adopted if anything is to be done.

¹ See p. 444.

² See p. 438.

The Grant of The Treaty Power in the Constitution

The treaty power is granted to the federal government in the most general and inclusive terms:

He [the President] shall have power, by and with the advice and consent of the Senate, to make treaties, provided two thirds of the Senators present concur. (Art. II, Sec. 2, Clause 2.)

To protect further any rights secured under treaties and to make secure the settlement of treaty questions in the federal courts, and so to emphasize the exclusive nature of the federal control over treaties, the Constitution further provides:

The judicial power shall extend to all cases, in law and equity, arising under this Constitution, the laws of the United States, and *treaties made, or which shall be made*, under their authority. (Art. III, Sec. 2, Clause 1.)

Not satisfied, however, with the implied prohibition upon the power of the states, the fathers went a step further and expressly prohibited relations between states and foreign countries:

No State shall enter into any treaty, alliance, or confederation. (Art. I, Sec. 10, Clause 1.)

No State shall, without the consent of Congress . . . enter into any agreement or compact with any State, or with a foreign power. (Art. I, Sec. 10, Clause 2.)

Therefore, both by direct grant to the federal government and by express limitation on the action of the states, is the treaty power vested exclusively in the federal government and the intention of the Constitution made doubly clear, that as to foreign relations the United States shall be a single unit expressing its will through the President and two-thirds of the Senate. Only through the action of the United States Government can the interests of this country and of its citizens be protected abroad. Only in this manner can we enter into those arrangements between governments which, as the society of nations becomes closer knit, and intercourse more frequent and more vital, increase in number and in importance. Wisely did the founders of our government set no express limit to this power of the federal government; but granted it in general terms, so that it could be extended to any of the new develop-

ments in international life which might require the joint action of states.

*Treaties are the Law of the Land and as such Prevail over
Conflicting State Statutes*

The Constitution, and the laws of the United States which shall be made in pursuance thereof; and all treaties made, or which shall be made under the authority of the United States, shall be the supreme law of the land, and the judges in every state shall be bound thereby, anything to the contrary notwithstanding. (Art. VI, Clause 2.)

Such are the words of the Constitution, and the federal and state courts have followed them faithfully. Although frequently state statutes passed in legitimate exercise of the reserved powers of the states have come into conflict with treaties, the state statutes have in every case been declared invalid and the treaties upheld.

Property rights of aliens was the first point of conflict between treaties and state laws, which came before the Supreme Court for decision. It was held in the case of *Ware v. Hylton* (3 Dall. 199) that an act of Virginia, passed during the Revolution, in relation to the property of a British subject, which was in conflict with the treaty of peace, was nullified by the treaty in consequence of Article VI of the Constitution. Although the treaty was made before the Constitution was adopted, that instrument expressly provided that all such treaties should be *the supreme law of the land* and should be superior to any state statute. Said Judge Chase in his opinion:

. . . There can be no limitation on the power of the people of the United States. By their authority the state constitutions were made, and by their authority the constitution of the United States was established; and they have the power to change or abolish the state constitutions, or to make them yield to the general government, and to treaties made by their authority. A treaty cannot be the supreme law of the land, that is, of all the United States, if any act of a state legislature can stand in its way. If the constitution of a state (which is the fundamental law of the state, and paramount to its legislature) must give way to a treaty and fall before it; can it be questioned whether the less power, an act of the state legislature, must not be prostrate? It is the declared will of the people of the United States that every treaty made, by the authority of the United States, shall be superior to the constitution and laws of any individual state; and their will alone is to decide. . . . If a law of a state, contrary to a treaty, is not void, but voidable only by a repeal, or nullification by a state legis-

lature, this certain consequence follows, that the will of a small part of the United States may control or defeat the will of the whole (pp. 236-237).

Perhaps the most complete right of the states is that of settling in their own way the ownership of land and other property over which they have jurisdiction; but this right has frequently been expressly declared to be subordinate to the treaty power of the United States. By the common law and by the statutes in force in many of the states, aliens were not permitted to inherit land, nor could an alien transmit land to his heirs. The property in either case was escheated to the state, because there was no "heritable blood" in an alien. The treaty with Great Britain in 1794 expressly granted to British subjects the right both to inherit land in the United States and to transmit the title to their land to their heirs, thus depriving the states of property which otherwise would have come to them and interfering with their judgment as to who should own land within their territories. The Supreme Court, however, found no difficulty in upholding the treaty in the case of *Fairfax v. Hunter* (7 Cranch 603), and its rule has been followed in all of the succeeding cases, so that there is no question that it is the settled law of the United States. The rule was applied by the Supreme Court in the case of *Orr v. Hodgson* (4 Wheat 453), *Chirac v. Chirac* (2 Wheat 259); *De Geofroy v. Riggs* (133 U. S. 258); *Hauenstein v. Lynham* (100 U. S. 483).

Even the taxing power of the states is not free from interference by the federal government under the treaty power. Many of the states subject foreigners to heavier inheritance taxes than citizens, and it has been frequently held in the state courts that where such statutes conflict with treaty provisions they must yield to the "supreme law of the land", see *Treaties, Their Making and Enforcement* by Crandall (2nd ed., § 107). One of the latest cases in which the matter has come up was in *Peterson v. Iowa* (245 U. S. 170). It was there held in the lower court that the statute was not in conflict with the treaty and the supreme court upheld this contention, but Judge White significantly said that the court conceded that if the treaty were applicable it would be controlling. It is true that it was suggested in the case of *Fredrickson v. Louisiana* (23 How. 445), that the United States could not regulate testa-

mentary dispositions or laws of inheritance of foreigners with reference to the property within the states, and, therefore, that a treaty which did so would not be valid. The court said, however, that this question was not involved in the case, since the treaty there under consideration was not in conflict with the statute. The doubt then cast upon the power of the United States is too clearly removed by the great weight of subsequent authority to be more than evidence of the way in which similar doubts as to labor treaties now arising in the minds of those zealous for the protection of state rights are almost certain to disappear when it becomes evident that the American, as well as the international, mind favors them.

But it was not alone in matters relating to inheritance and the ownership of property that treaties of the United States have been held superior to state statutes regulating matters of internal police. Notable instances of this superiority of the federal power are found in connection with treaties with Indians, which were held to be under the treaty clauses of the Constitution and to have equal power and effect with treaties with foreign states. In *Worcester v. Georgia* (6 Peters 515), it was decided that a treaty with the Cherokee Indians and legislation passed to carry it out, nullified a statute of the State of Georgia, purporting to regulate the right of white people to live among the Indians in the territory of Georgia. In *United States v. 43 Gallons of Whiskey* (39 U. S. 188), a treaty with the Chippewas was the authority for a United States marshal to seize property within the territory of the State of Minnesota, outside of the reservation.

In *Ward v. Race Horse* (163 U. S. 594), although the court held that the statute there under consideration did not interfere with the treaty with the Indians, the great care which Justice White gave to proving it, tends at least to show his impression that the right of the state to regulate game within its borders might have been limited by treaty and Justice Brown in dissenting clearly takes this ground. A treaty between the United States and the Seneca Indians was "parcel of the paramount law and must prevail over all state laws in conflict with it." The state law held invalid in that instance was a statute taxing Indian lands for the support of roads and bridges (See *Fellows v. Denniston*, 23 N. Y. 420).

Conflict between the police power and treaties was the subject of many vigorous opinions in the United States courts on the Pacific Coast. The opposition to Mongolian immigration led to a number of state constitutional provisions and state statutes which were in conflict with the treaty with China and which were regularly declared to be void for this reason; thus, the right of a state by constitutional amendment and by statute to prohibit the employment of Chinamen by corporations was denied (*Parrott Case*, 7 Sawy. 527), an opinion which was extended to municipal corporations (*Baker v. Portland*, 5 Sawy. 577). Even an ordinance of the city of San Francisco limiting the right of a subject of China to follow a lawful trade was held obnoxious to the treaty (see *Laundry Ordinance Case*, 7 Sawy. 527), and it was said that a clause of the Constitution of Oregon and mining regulations made in pursuance of it were void if in direct conflict with the treaty (*Chapman v. Toy Long*, 4 Sawy. 28).

Frequently in deciding that in a particular case a state police statute was not in conflict with a treaty, the court has intimated that otherwise the treaty would have prevailed. Of this character was the decision in the *Compagnie Française v. State Board of Health* (186 U. S. 380), in which a quarantine statute of the State of Louisiana was in question. Judge Harlan in dissenting held that the statute was a violation of the treaty and added: "Necessary as efficient quarantine laws are, I know of no authority in the states to enact laws in conflict with our treaties with foreign nations." So a state law limiting the right of an alien to recover damages for death, it seems to have been considered by the court, would be void if contrary to a treaty (*Maiorano v. Railroad Co.*, 213 U. S. 268).

Legislative and Executive Precedent in Favor of Labor Treaties

The legislative and administrative branches of the government on their side have lately expressed their judgment that the treaty power may invade fields which would be closed normally to Congress. In 1898, the question arose as to whether or not the United States could enter into a treaty with Great Britain to protect fisheries in boundary waters between the United States and Canada. It was referred to the Attorney-

General who said that it was obvious that the United States had no authority to regulate fisheries within the territorial jurisdiction of the states, but since the regulation of fisheries was a proper subject for international agreement, the United States could enter into a treaty for this purpose. To show that the regulation of fisheries was a proper subject for international agreement he cited certain treaties with Great Britain and also the necessity of joint control of the waters in which fish live and spawn, that is, the question as to whether a certain treaty is within the treaty power is determined by precedent and by the necessity of the case arising from the facts (22 Op. Atty.-Gen. 214). A treaty to regulate fisheries was signed on April 11, 1908.

Very recently this same theory has been embodied in a treaty and statutes. By the act of March 4, 1913, certain migratory birds were taken under the custody and protection of the United States Government and the game laws of the various states were set aside by a federal statute. On August 17, 1916, by treaty between the United States and Great Britain on behalf of Canada, the protection for certain of these birds was made international. The statute being subsequently held unconstitutional in *United States v. Shauver* (214 Fed. 154, see 39 Sup. Ct. Rept. 134). Congress on the 3rd of July, 1918, passed a new act regulating migratory birds and declared that it was for the purpose of carrying out the treaty. The President promptly promulgated regulations under the statute. Congress, therefore, clearly assumes that under the treaty power it could take control of a subject otherwise in the exclusive control of the states and pass legislation otherwise not within its power, to carry out a treaty. The Executive has endorsed the opinion of the legislature. The federal district judge who held the statute of 1913 unconstitutional has recently held the treaty and statutes passed under it constitutional.

The best precedent for the power of the United States to enter into treaties without regard to the police power of the states is found in the words of the ordinary commercial treaty guaranteeing reciprocal liberty of residence, of travel and of doing business, to the citizens of one country in the territory of the other. If the police powers of the states are paramount and if no treaty in any way limiting them can be ef-

fective, then these treaties guarantee no protection whatsoever to foreigners and the United States went beyond its powers in negotiating and ratifying them. That no one will contend this for a moment, is the best proof that the question is not whether a treaty can override the police powers of the states, but whether it is a legitimate exercise of the treaty power.

A Labor Treaty would be within the Treaty Power

The extent of the treaty power is the crux of the whole question. Fortunately we have judicial help in aiding us to determine it. Justice Davis in *United States v. 43 Gallons of Whiskey* (93 U. S. 188) said: "It cannot be doubted that the treaty-making power is ample to cover all usual subjects of diplomacy with the different powers." Expressing the same idea rather more fully, Justice Field said in *De Geofroy v. Riggs* (133 U. S. 258):

That the treaty power of the United States extends to all proper subjects of negotiation between our government and the governments of other nations, is clear. It is also clear that the protection which should be afforded to the citizens of one country owning property in another, and the manner in which that property may be transferred, devised or inherited, are fitting subjects for such negotiation and of regulation by mutual stipulations between the two countries. As commercial intercourse increases between different countries the residence of citizens of one country within the territory of the other naturally follows, and the removal of their disability from alienage to hold, transfer and inherit property in such cases tends to promote amicable relations. Such removal has been within the present century the frequent subject of treaty arrangement. The treaty power, as expressed in the Constitution, is in terms unlimited except by those restraints which are found in that instrument against the action of the government or of its departments, and those arising from the nature of the government itself and of that of the States. It would not be contended that it extends so far as to authorize what the Constitution forbids, or a change in the character of the government or in that of one of the states, or a cession of any portion of the territory of the latter, without its consent. *Fort Leavenworth R. Co. v. Lowe*, 114 U. S. 525, 541 [29: 264, 270]. But with these exceptions, it is not perceived that there is any limit to the questions which can be adjusted touching any matter which is properly the subject of negotiation with a foreign country. *Ware v. Hylton*, 3 U. S. 3 Dall. 199 [1: 568]; *Chirac v. Chirac*, 15 U. S. 2 Wheat. 259 [4: 234]; *Hauenstein v. Lynham*, 100 U. S. 483 [25: 628]; *Droit d' Aubaine*, 8 Op. Atty. Gen. 417; *People v. Gerke*, 5 Cal. 381 (pp. 266-267).

In *Downs v. Bidwell* (182 U. S. 244) the court approved a former decision expressing the same idea:

The treaty-making power vested in our government extends to all proper subjects of negotiation with foreign governments [p. 294].

Clearly, the treaty power cannot be used to destroy the constitution or the government set up under it. A treaty which attempted this would not be a proper exercise of the treaty power, but an interference with the rights of a sovereign state. It could only be imposed upon a defeated country, not under a constitutional power, but as the command of a victorious enemy. It cannot be said, however, that a treaty which limits the police power of one of the American states is, therefore, in conflict with the Constitution. The cases already cited are ample authority to the contrary. Furthermore, this power is only one of those granted to the United States by the Constitution. Another is the power to regulate interstate and intrastate commerce, and it is unnecessary now to argue that the police powers of the state do not stand in the way of an act of Congress passed in the legitimate exercise of its authority. The point was raised and decided by Chief Justice Marshall in *Gibbons v. Ogden* (9 Wheat 1). While a doubt was thrown upon it prior to the Civil War, during the period in which the contest for state rights was being waged, it has not been questioned since the defeat of the Confederacy. Its completeness is shown by the expression of the court in *Keller v. United States* (213 U. S. 138):

While it may be a police power in the sense that all provisions for the health, comfort, and security of the citizens are police regulations, and an exercise of the police power, it has been said more than once in the court that, where such powers are so exercised as to come within the domain of Federal authority as defined by the Constitution, the latter must prevail [page 146].

But if the police powers of the states must give way before a legitimate exercise of the commerce power by the United States, why should they not equally give away before a proper exercise of the treaty power?

Is the treaty proposed a usual subject of diplomacy? Dr. Andrews has told you how frequently labor questions have been made the subject of treaties between governments and the reasons why. The negotiations of Paris culminating in the labor clauses of the Covenant, are the latest evidence of

the opinion of diplomats; the permanent labor organization included in the treaty testifies to the importance which labor treaties are about to assume in the international social order and prove that in fact international settlement of labor questions is "a subject of negotiation" between nations.

Præeminently the question is a political one, for determination by the political power of the government. If the President and Senate decide that in justice to the interests of this country and to the world at large the United States should enter into such treaties, their deliberate opinion would undoubtedly have great, if not prevailing, influence upon the court that the subject was proper for negotiation, as against the supporters of a narrow doctrine of state rights.

The same facts which will mould public opinion to demand them will also prove that the treaties are legitimate subjects of negotiation. Dr. Andrews and Mr. Elkus have already told you what these are and if they prove convincing enough to cause the President to negotiate, and the Senate to approve a labor treaty, it is probable that, aided by the precedents, they will induce the Supreme Court to declare it constitutional.

THE ENFORCEMENT OF INTERNATIONAL LABOR STANDARDS RELATING TO CHILD LABOR

W. H. SWIFT

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WE are at the end of a day's thinking. The whole discussion has been such as to force thought. I rise to leave with you one idea.

I very much hope that these labor planks will stand as a part of the treaty and that the whole treaty including the League of Nations will be adopted. I am sure that our people will approve its adoption. They are ready to try anything which promises peace and an opportunity to work out a better world-life. I say this in spite of the very able argument made by Mr. Pepper this morning. That was to my mind an argument so ably and so skillfully made that one is not apt to hear its like twice in a life-time. For the moment, it almost forced me to change my mind. But that has passed; I feel better now.

I am thinking of that part of the treaty which refers to the employment of children and am not thinking so much of the children of England, of France, of Italy or even of Belgium as of our own American boys and girls. It may be wrong, but I do think of our own first. The welfare of thousands, millions of American children will be promoted by the adoption of these standards by our national government. If adopted, the national government will undoubtedly take such steps as are necessary to insure that they are lived up to and to put them into active forceful operation in every section. We would be ashamed not to do it. Good manners and good morals would bind us to strict observance. America could not break the faith. If our Constitution should stand in the way, we would change it. It is only semi-sacred.

As the matter now stands we are so proud of the fact that we are Americans, that we have helped to save or to win liberty for others, that we forget our own shortcomings and limitations. The fact that the national government may have limitations seems to have been overlooked in the day's dis-

cussion. It is just that fact, the fact of limitations, which makes these international standards of vital importance to American children.

The fourteen-year age limit for employment and continuation schools up to eighteen have been referred to as if accepted and operating throughout our whole country. The fact is, that these standards are not accepted and enforced throughout our country. It is not at all certain that the Government of the United States can guarantee proper schooling for every child. The only serious attempt that has been made by the national government to this end has been to appropriate federal money for certain educational purposes and to fix the standards under which that money may be used. The federal government has taken no steps to guarantee that all the children are properly taught. Compulsory education is left to the different states. Coming in from the American field, where I have been traveling here and there, I tell you that there are thousands of American children who are not receiving proper schooling and who, although they will go to work at fourteen or younger and, in thousands of cases without even as much as a fifth-grade education, can not hope under state educational systems to see a continuation-school, much less attend it. All our children will not be properly taught unless the national government gives attention to the matter. Perhaps the adoption of these international standards would compel the national government to enter this field. If so, it would be highly beneficial.

The same thing is true with child labor. It was found that the employment of children could not be well regulated by state laws. Congress enacted a national child labor law. You know what happened. Certain citizens of North Carolina said, "The act is no good", snapped their fingers in the face of the national law, and the Supreme Court said, "The act is no good".

A second national child labor law was passed by Congress. Again citizens of North Carolina have said, "No good" and the lower Federal Court seems to have said, "You are right and Congress is wrong". So that it is not at all certain, as the law now is, that the national government can prevent even an inhuman exploitation of childhood, or enforce proper stand-

ards. In the state which I have named, children under sixteen years of age may be employed eleven hours a day and as late as nine o'clock at night.

As an American citizen, I do not doubt for one moment but that, if these international standards regulating the employment and education of children should be adopted, somehow, somebody, will devise some way by which we will not only live up to our international agreements but take care of our own boys and girls. The American people will not hesitate to amend the Constitution to that end if that is the only way.

[460]

SOME INTERNATIONAL FINANCIAL OBLIGATIONS OF THE UNITED STATES AND ONE WAY OF MEETING THEM

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BEFORE the Great War the United States was a debtor nation, its indebtedness to Europe being estimated at \$5,000,000,000, while it paid an annual tribute to Europe in the form of interest, dividends, freight charges, insurance, commission, *etc.* of \$400,000,000 to \$500,000,000. The United States had no difficulty in making this payment, because Europe needed food products and raw materials for her manufactures which we could supply more cheaply and with greater certainty than any other country. Consequently, an equilibrium was established between our obligations to Europe and her purchases from us. A country which is a large producer of raw materials, if it desires to dispose of those materials, should either be a debtor nation paying a large tribute to other countries or a large importer of the finished products of other countries. The United States paid its tribute in raw materials which it had to spare and which other countries purchased, because it helped us and them to maintain the equilibrium. It was not to our advantage to get out of debt, nor to the interest of Europe to have us free of obligations to her. Although the United States had increased greatly in wealth in recent years and had become richer as a nation than any of the nations of Europe, its debt to Europe was reducing but slowly, the natural tendency of a wealthy nation to pay its debts being offset largely by the willingness of Europeans to invest their money here where it would yield greater returns than if invested in their own countries and more certain returns than if invested in other parts of the world. However, there was a tendency, growing stronger in late years, to discharge that indebtedness, and, had the same conditions continued, it is probable that, in a comparatively

short time, we would have changed from a debtor to a creditor nation. As countries become richer the average returns on capital become less, which tendency would have checked the flow of European money for investment, while we should have used a greater proportion, perhaps all, of our food and raw material ourselves, and a new international equilibrium would have been established. This equilibrium is the true "balance of trade", signifying that what a country imports it pays for in exports, and that what it exports it receives payment for in imports, including in the terms exports and imports not only consumable goods, but gold, credits and services as well.

This equilibrium in trade between nations must exist; otherwise international trade could not be carried on continuously. England, in spite of her enormous exports of finished products, imports in consumable goods much more than she exports, because her production of food and raw materials is small compared with her requirements. But England collected such a large tribute from other countries in the form of interest, dividends, rents, ship charges, banking profits, *etc.*, that not only was she able to pay for the excess of her imports over her exports, but she was left a large creditor of other countries. Had she demanded payment in gold or goods, she would have destroyed the market for the goods she desired to dispose of. To maintain the necessary equilibrium and retain her markets she was driven to invest in foreign countries this large balance, whereby she not only extended her markets but increased the annual tribute due to her.

The war destroyed this equilibrium. It brought about changes too suddenly to permit a readjustment in international financial relations. The United States changed from a debtor nation to a creditor nation without the corresponding changes that would have accompanied such a transformation if this condition had been brought about gradually. Not only has our tribute to Europe been wiped out and replaced by a tribute due from Europe to us, but there has arisen an entirely new demand on the part of Europe for our finished products which still further increases her obligations to us. Had we continued to be a debtor nation, had our debt to Europe increased, and had we become more and more dependent on Europe for in-

vestment funds, shipping etc., Europe's increased purchases would have been offset by the increased tribute we owed to her. But Europe was unable to provide herself with the enormous quantities of raw and finished goods required, and the United States was able to furnish them to her. Besides, Europe was not able to produce the finished products she had been selling in the United States. As a result of all these tendencies working against Europe and in favor of the United States, the equilibrium became so violently disturbed that Europe is not able to pay for what she is obliged to have. Refusing our assistance to meet the requirements of Europe at this time would be very serious. Aside from the moral duty to lend a helping hand to the needy, particularly those in the devastated parts of France and Belgium, there are powerful political, economic and social reasons why we should make every effort possible to meet their requirements. Supplying the needs of Europe will go far toward stabilizing conditions there, by feeding the hungry, enabling the industries of Europe to resume production, furnishing employment for millions of workers, providing food for the hungry and clothing and shelter for the naked and thereby lessening, if not destroying, the unrest and discontent that encourages the spread of Bolshevism. Furnishing these necessities to Europe means increased production and profit to us and maintaining our large industrial population at work at a time when there is industrial unrest the world over, and when serious industrial disturbances in this country might, and probably would, aggravate conditions which threaten a cataclysm more serious in its effects than the Great War itself.

There are immensely powerful and practical reasons why the people of the United States should meet the requirements of the people of Europe, aside from our natural duty and desire to aid those in distress. It must be understood that Europe is not bankrupt. She has enormous resources which are temporarily unproductive but which, when restored to their *ante-bellum* productivity, are capable of supporting the dense population that survives and that demands an opportunity of being restored to a self-supporting basis. The very density of the population ensures a rapid restoration of wealth. The trained hands are ready and willing to work as soon as work is offered them.

In certain parts of Europe, probably the greater part, the people are now on a self-sustaining basis. They are not within the devastated area, and the actualities of war have not touched them. All of Germany, the British Isles, and the neutral nations come within this category. It is probable that the people in these districts can produce their normal supply and need no assistance other than credits that can be obtained from their banks and such as their own governments can give them. But in the devastated regions, notably Belgium and Northern France, where before the war were populous communities, engaged in the production of thousands of articles that contribute to the wealth of the world, and who, as a result of their labor, supplied themselves with food, clothing and shelter, who supported their governments with the taxes they paid and filled the banks with their savings, millions are now idle and helpless because of the destruction of homes, factories, machinery, mines, bridges, and railroads and other things necessary to the production and distribution of their goods. If these were restored they could support themselves; until they are restored they cannot do so. They are not able to pay for the materials that are necessary to reconstruct their houses and factories, to purchase machinery, to restore their mines, roads, bridges and railroads. Many are not able to pay for food to maintain themselves and their families until they become producers again. The amount of money necessary for these purposes is several billions of dollars, and many years of production on a scale equal to or greater than that carried on before the war will be necessary before such an amount can be raised for that purpose, and, in the absence of these things,—machinery, buildings and means of transportation, production on a great scale is impossible. It is, therefore, evident that these people must be furnished with these necessities as soon as possible, but, as they cannot pay for them, some way of furnishing credit must be found for them.

This credit, being long-time credit, is not such as banks can extend, though under the spur of necessity banks can, and will, go much farther in granting credits than they would, or should, do in normal times. But banks have so many demands on them at this time that every effort should be made to relieve them to as great an extent as possible of the burden of long-

time credits, and, furthermore, the billions of dollars of long-time credits necessary, even if divided among the banks of the United States and Europe, would so congest their resources as seriously to impair their functions. Aid which will be extended by governments can only be raised by taxation or borrowing, and when one considers what amounts governments must raise to meet obligations already incurred, it is evident that such aid must be limited.

The best suggestion that has been made as to issuing these securities is by means of a corporation of which the capital stock shall be owned in whole or in part by the United States Government. I should prefer to have the thing done by private enterprise. One "Investment Trust" has already been organized for this purpose and I hope many others will be created, because Europe needs all the long-time credit that we can give her, but these "Investment Trusts" will appeal only to experienced investors and not to the mass of the people, who are embryo savers and investors. I do not know that a corporation can be successfully organized with part private and part governmental capital and am inclined to believe that it will be more practical for the government to own all the stock. There is no danger in this under the plan about to be described, as the duties of this corporation would be largely mechanical consisting of the conversion of foreign obligations to domestic obligations.

The corporation will issue bonds, or more correctly speaking, debentures, payable at such times as will conform most closely to the needs of the people of Europe, as, for example, some maturing in one year, some in two and so on, up to ten years if that is long enough. The debentures should bear a rate of interest that will be sufficiently high to induce people to buy them, say, six per cent., and should be issued in as small denominations as ten dollars. Every bank in the country should be made a fiscal agent for the sale of these securities and receive a commission on one-half of one per cent. for selling them, or whatever is decided upon as a reasonable compensation. The debentures would be issued against foreign securities offered to the corporation as the basis for funds, all the debentures should be issued against all the securities, and, of course, no more debentures would ever be issued than

foreign securities held by the corporation. The funds realized from the debentures would not be sent to Europe but would be used in this country for the purchase of goods produced here, exactly the same as the advances made by the United States Government to the allied governments were used.

In order that this corporation shall not be compelled to accept foreign securities or to investigate their value, which it cannot well do, only the obligations of the foreign governments themselves should be taken by this corporation as a basis for its debentures. The peoples of the countries of Europe hold enormous quantities of the obligations of their governments, and, if they could use part of them as a basis for credits in this country, it is probable that all of their needs for reconstruction purposes could be supplied. As an alternative plan, however, the governments of France and Belgium and such other nations as need these long-time credits, could organize corporations something like the one above described, which could pass on the value of securities of their own people, and, if approved, could issue their debentures to our corporation on the security of which our corporation would issue its own debentures. The main thing is to convert foreign securities into domestic securities, so as to appeal to domestic investors.

The capital of this corporation should be large. One plan which has been discussed names \$500,000,000. That plan included the use of this capital as a "revolving fund" which would be advanced to the borrowers, the corporation reimbursing itself by the sale of its debentures to the public. I should prefer, if it is possible, to have every dollar advanced to Europe to be the proceeds of the sale of a debenture to an investor. This will make the intervention of the government in the matter merely for the purpose of giving a prestige to the corporation which it would not otherwise have. The capital stock of the corporation, \$500,000,000, or whatever might be decided upon as the proper amount, would not be paid in except as needed to make good losses. Under the plan outlined above there is not much probability of loss, and, consequently, there would be no need of calling on the government for any money if only such funds are advanced to Europe as result from the sale of debentures.

But the necessities of Europe are urgent. Every day's delay in reconstructing the productive and distributing machinery of Europe means delay in making its people self-supporting and encourages the spread of Bolshevism. The money is needed more rapidly than can be provided by "Investment Trusts" or a corporation which depends for funds on a few hundred million dollars of government money and their possible replacement when raised through sale of debentures. These debentures must be offered to every man, woman and child in the United States and there must be a well-devised, far-reaching, systematic plan of campaign for reaching them as they were reached during the Liberty Loan campaign. A campaign conducted along these lines could, without doubt, in a few weeks or months raise enough funds to provide for the most pressing needs of Europe and start its people on the way to self-support and check the spread of discontent.

There is another very decided advantage in this plan; the encouragement it will give to the habit of saving and investing that has begun to develop among the mass of our people as a result of the five Liberty Loan campaigns. At the time the war commenced a very small proportion of our population had ever bought a bond or similar security. At the present time 20,000,000 people are owners of securities. The wealth of a nation is increased by the savings of the individuals, and anything that tends to increase these savings will benefit the whole country. Our people are spenders rather than savers, but a start has been made by many of them toward the habit of saving, which, now that there are to be no more government bond campaigns, will be lost through lack of encouragement. If a security such as has been described is offered to the people and the fact is impressed upon them that they can by saving their money and purchasing these securities provide funds for a purpose that is as important as winning the war, a large part of those 20,000,000 people will doubtless respond and will continue the habit of saving begun by them during the Liberty Loan campaigns. They bought United States government bonds, but they would not buy the bonds of foreign governments and are not educated up to buying other kinds of securities yet, because they know nothing about them. A debenture such as described, issued by a corporation whose capital stock

is held by the United States Government is something that, unless I misunderstand them, would appeal to these people as a desirable investment and would encourage them to continue the habit of saving they developed during the Liberty Loan campaigns. A habit grows from the constant repetition of the same act, and the oftener our people respond to the opportunities presented to them to save and invest, the stronger will be the saving and investing habit developed in them. I think it is not too much to say that nothing would do more to stabilize the position the United States has suddenly attained in international finance and trade than to have our people acquire the habit of systematic saving, as it is only by that means this country can supply the credit that a nation with a large foreign trade is called upon to extend to its customers.

[468]

THE ABSORPTION OF FOREIGN OBLIGATIONS BY SAVINGS BANK AND TRUSTEE INVESTORS

MILTON HARRISON

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THERE are two causes which would lead to caution on the part of savings bank or trustee investors in a risk involved in investment in so-called foreign obligations: first, a lack of understanding of the security, and thus a presumed uncertainty of payment of the debt at maturity; and, second, inadequate marketability and the precedence of American government and municipal securities over foreign government and municipal obligations.

The high-grade trustee investor is rather inclined to follow closely the investment restrictions imposed on mutual savings banks. There is justification in following such an example as the mutual savings banks, particularly those of the State of New York which have maintained the highest level of safety and soundness. In New York, if a trustee closely observes the savings bank law pertaining to investment of funds, he is relieved of personal liability in the event of any loss.

The history of the mutual savings institution as such has demonstrated the desirability of the highest conservatism in the investment of funds. Thus it is natural for the managers of these institutions to scrutinize carefully any new field of investment. After some years of close contact with the mutual savings banks the writer is convinced of the wisdom of this policy. For example, the savings banks of the State of New York were given the right to invest in railroad bonds by the legislature of 1898. The savings banks of New York State, through their association, however, discussed the advisability of opening the field of investment to railroad bonds several years before this time, regardless of other mutual savings bank states having passed acts permitting investment in railroad bonds as early as 1876. Within a few months after the New York banks were permitted to invest in railroad bonds, 47 out of 130 banks in the state had invested \$8,851,000 in such bonds.

However, it was not until 1903 that there was any substantial increase in the investment in this character of obligations. Railroad bonds became an exceptionally attractive investment to the savings bank of the state, although selling at a basis as low as 3 per cent. The report of the Superintendent of Banks of the State of New York for January 1, 1903, indicates investment of \$151,919,779 in railroad bonds by 116 banks out of 127, or 12.8 per cent. of resources.

While the investment in railroad bonds of the savings banks of the State of New York since 1903 has more than doubled in amount, yet the proportion of increase to total resources has advanced only about four per cent. This simply may indicate a trend of the process of investment by mutual savings banks in a security new to them.

Much has been written of late as to the necessity for the absorption of a large quantity of foreign obligations by American investors. In order to lend stability to the international financial situation the pressure of this necessity may tend to hasten the day when the funds of the savings bank and trustee investors will be invested to a substantial amount in foreign obligations. The example given above of investment in railroad securities may not altogether indicate the probable tendency respecting investment in foreign obligations; however, savings banks may curtail to a considerable degree their future investment in railway issues. Thus, they may be attracted to foreign government and municipal bonds sooner than they would ordinarily.

An amendment to the law of New York State permitting such investment has not as yet been proposed to the legislature, nor has it been seriously discussed by the Savings Banks Association of the State of New York, which is the authoritative representative body for savings banks of that state. However, during the last session of the legislature of Connecticut a bill was passed permitting savings banks to "invest not exceeding 10 per centum of their deposits and surplus in the obligations of the government of the Kingdom of Great Britain and Ireland, and the government of the French people, and the government of the Dominion of Canada, or any of its provinces, provided such obligations have a fixed and definite maturity and shall be the direct obligations of such government or province, and

that the full faith and credit of such government or province shall be pledged for its payment, principal, and interest."

It is by no means certain that the other mutual savings bank states will follow the wording of this law which would permit investment in the bonds of British Columbia, for example, which may not be exactly up to the standard of what a savings bank security should be. The restrictions which will be imposed on foreign obligations by such states as New York and Massachusetts will doubtless be more closely defined, possibly to include such bonds as those which were issued by the American Foreign Securities Company in 1916 which was an issue of \$94,500,000 dated August 1, 1919, for three years at 5 per cent., secured by bonds of foreign governments owned by the French government under its pledge to the American Foreign Securities Company. It is reasonable to assume that foreign securities companies will be formed with this very purpose in mind. This will bring the obligor closer to the investor.

At the recent conference of the Council on Foreign Relations "On the investment of American capital abroad" the problem of bringing the obligor closer to the American investor was discussed. The thought was advanced that certain foreign government and municipal obligations could possibly be guaranteed by the United States Government or a group of responsible American bankers. Of necessity, of course, foreign obligations in which savings bank investors would be permitted to invest will be restricted to government or highest grade municipal issues, and of necessity there will be many of such issues. Possibly foreign industries may become financed by American capital furnished by savings bank and trustee investors through the obligations of their governments. This is conceivable. There will be sufficient capital available for lending to foreign countries, even though the needs of our own country may be very great when one considers the billion dollar borrowing program of the states together with the demands of municipalities, railroads, and public utilities, as well as temporary financing of the Federal government in anticipation of taxes. As a consequence, it is difficult to estimate the amount of capital which may be available for the purposes of foreign investment.

The resources of the 625 mutual savings banks in the United States are close to five billion dollars. The gross income alone

on this sum is about 250 million dollars. Due to the intensive encouragement of thrift these banks are increasing deposits to an unusual amount. Thus, if the managers of these institutions can be interested in the absorption of foreign obligations and the necessary enabling acts are passed by the state legislatures, there is every reason to believe that the savings banks can be depended upon to absorb a relatively large amount of foreign obligations provided they are assured of the absolute safety and soundness of the security offered.

There is no institution in the country which is better equipped to handle the public's savings with assurance of safety than the mutual savings banks. It is because of such reputation that trustees generally follow the restrictions placed upon the investment of savings funds. The savings banks realize their responsibility in aiding to maintain international finance.

At the recent meeting of the Executive Committee of the Savings Bank Section of the American Bankers Association at White Sulphur Springs, West Virginia, a resolution was adopted favoring "investment by savings banks in high grade foreign securities in order to further the stability of international finance and directing the committee on investments to study the character of foreign securities which should be eligible for investment by savings banks; and further, that restrictions be developed safeguarding the funds invested in foreign obligations and placed in the form of a bill eventually to be submitted to state legislatures for their action. For like reason we furthermore urge upon the people of this country the vital necessity of their individually purchasing substantial amounts of such foreign securities as may be determined to be safe investments for savings institutions."

The solution of the problem of providing adequate capital for home and abroad seems to be the burden placed upon America and presents a huge task, which depends foremost upon the ability of the individual to save and conserve. The American capitalist is the American public. If thrift is practiced and waste eliminated, the institutions which gather the savings of the people will be in a position to do their part to provide the sinews of peace.

THE NEW NATIONAL PROCESSES AND ORGANS REQUIRED FOR ADOPTING AND EFFECTU- ATING THE COVENANT

ALPHEUS HENRY SNOW

THE situation which arises from the proposal that the United States shall adopt the instrument framed by the Paris Peace Conference and called by it "the Covenant of the League of Nations", is unprecedented in the history of the nation. It is, indeed, a situation which is likely to arise only once in the life of an independent state. The question is whether the United States shall enter into a union with other states, under an instrument which, though in form a treaty, is in fact a written constitution, ceding to the union a portion of its independence in consideration of a similar cession by each of the other states; the union having as its professed object "to promote international cooperation and to achieve international peace and security". If the United States decides to enter the League, it will, by the cession of the necessary part of the nation's independence, change its status from that of an independent state holding relations with other states solely under the law of nations, to that of a member state of a union, subordinate to the union, and whose relations to the other states and to the union are governed by the constitution of the union.

The question arises: By what processes and through what organs shall the United States act in making its decision upon the proposal to enter this union and in thus determining whether to change its status? It is held by many—indeed, it seems to be generally taken for granted—that the proper process is that of treaty, pure and simple; and that, therefore, this great decision may be made, in behalf of the people of the United States, by the President and Senate, the latter acting by two-thirds vote. Others hold that, inasmuch as the adoption of the Covenant will change the character of our government, the treaty-making power is inadequate, and that the change can be made only by amending the Constitution of the United States in the manner provided by the Constitution. Still others insist that as the change of government proposed

does not involve a change in any specific part of the Constitution but will amount to superseding the whole Constitution in certain respects by placing over it a super-constitution, the process for amending the Constitution is not applicable; and that inasmuch as all powers not expressly granted are, by the tenth amendment, reserved to the states respectively and to the people, the proper process is that of a constitutional convention of the states and people of the United States.

That the treaty-making process, pure and simple, is not a proper one in the present case would seem to be clear. The Constitution itself distinguishes between treaties of union and treaties of the ordinary kind by giving to Congress the power to admit new states into the Union. Evidently the admission of a state into an existing union is possible only by treaty between the union and the state, whatever may be the form of the action of the parties. This power to admit new states undoubtedly includes the power to incorporate annexed regions into the union. The reason why this power to change the character of the government by taking new elements of territory and population into its domestic body was vested in Congress, was explained by Justice (now Chief Justice) White in the *Insular Cases*. In the case of *Downes v. Bidwell* (182 U. S. 287, 312, 313, 319), he said:

In view of the rule of construction . . . that all powers conferred by the Constitution must be interpreted with reference to the nature of the government and be construed in harmony with related provisions of the Constitution, it seems to me impossible to conceive that the treaty-making power by a mere cession can incorporate an alien people into the United States without the express or implied approval of Congress. . . . If the treaty-making power can absolutely, without the consent of Congress, incorporate territory, . . . it must follow that the treaty-making power is endowed by the Constitution with the most unlimited right, susceptible of destroying every other provision of the Constitution; that is, it may wreck our institutions. If the proposition be true, then millions of inhabitants of alien territory, if acquired by treaty, can, without the desire or consent of the people of the United States, speaking through Congress, be immediately and irrevocably incorporated into the United States, and the whole structure of our government overthrown. . . .

When the various treaties by which foreign territory has been acquired are considered in the light of the circumstances which surrounded them, it becomes to my mind clearly established that the treaty-making power was always deemed to be devoid of authority to incorporate territory into the United States without the assent, express or implied, of Congress, and that no question to the contrary has ever been even mooted.

In the same case, Mr. Justice Gray said (page 346) :

So long as Congress has not incorporated the territory into the United States, neither military occupation nor cession by treaty make the conquered territory domestic territory in the sense of the revenue laws.

The treaty-making power was thus described by William Rawle, in his work, *A View of the Constitution of the United States* (ed. 1829, page 65) :

[A treaty] is a compact entered into with a foreign power, and it extends to all those matters which are generally the subjects of compact between independent nations. Such subjects are peace, alliance, commerce, neutrality, and others of a similar nature.

This conception of the treaty power as a power incident to sovereignty, to be exercised within the scope and in the manner established by the law of nations and by the practice of the leading independent states, runs through the literature of the public law which was in existence at the time the Constitution was adopted. By the law and practice of nations, treaties in general between independent states were made by the king or chief executive in council. Treaties of union, however, were not regarded as treaties but as constitutions of government and were made by parliaments in which all the estates of the realms of the uniting states were represented. This course was pursued in the case of the treaty of union between England and Scotland in 1707, generally called the "Act of Union", by which the two states became one under the name of Great Britain. The parliaments of each of the states authorized by identical statute the appointment of commissioners "to treat and consult" concerning a union and to make a "report" to the respective parliaments, and the parliaments by identical statute accepted and adopted their joint report called "Articles of Union". In the articles, the whole transaction is called a "treaty of union."

This view of the treaty-making power, as a power to make all such agreements with independent states as are usually made between independent states, but not to make any voluntary agreement with other states for a cession of independence, whether mutual or otherwise, or to change in any way the character of the government, is plainly that held by the Supreme Court of the United States. That Court, speaking by

Justice Field, in the case of *Geofroy v. Riggs* (133 U. S. 258, 266, 267), said:

That the treaty power of the United States extends to all proper subjects of negotiation between our government and the government of other nations is clear. . . . The treaty power, as expressed in the Constitution, is in terms unlimited except by those restraints which are found in that instrument against the action of the government or its departments, and those arising from the nature of the government itself and that of the States. It would not be contended that it extends so far as to authorize what the Constitution forbids, or a change in the character of the government, or in that of one of the states, or a cession of any portion of the territory of the latter, without its consent. . . . But with these exceptions, it is not perceived that there is any limit to the questions which can be adjusted touching any matter which is properly the subject of negotiation with a foreign country.

It seems clear, therefore, that the Covenant of the League of Nations, which is a super-constitution of a super-unity of which the United States is to be a member, cannot be adopted by the treaty-making process alone, since the treaty-making power does not extend so far as "to authorize a change in the character of the government". Any act which changes the character of the government is evidently an act done in the exercise of the constitution-making power, whether it has the form of a treaty, a law or an executive order.

The real question is: By what process shall the United States enter into a treaty of union having the effect to supersede in part the Constitution of the United States? This is the opposite case from a treaty of union for admitting into the union a new state or for incorporating annexed territory into the domestic body. A treaty of that sort is a treaty of union for expanding the national strength and influence; a treaty whereby the United States is itself admitted to a union, is a treaty for contracting the national powers and has a tendency to weaken the national strength and influence.

Congress is declared to have power as respects treaties for the purpose of expansion, because, as Chief Justice White has said, it represents the interests of the people of the United States, all of whom are vitally concerned in having the domestic body of the nation kept homogeneous and Americanized. It seems necessarily to follow, *a fortiori*, that Congress, as guardian of these vital interests, must have power as

respects treaties for the purpose of contracting the national powers and placing the population in an intimate permanent union and relationship with peoples having standards and ideals different from and possibly destructive of those of the American people.

It seems far more harmonious with the general plan of the Constitution to hold that the Constitution by necessary implication intrusts to Congress this preservative function, as the guardian of all the people, of determining whether the United States shall partially extinguish itself in a union than to hold that the constitutional process for determining such a question is that of constitutional amendment or of constitutional revision through a general constitutional convention. By the practice of nations, the legislature of each independent state is regarded as the guardian of all the people in cases where a change in the external relations of the state is proposed, which, if carried into effect, will make a difference in its domestic constitution or diminish its independence, or which is calculated to affect adversely the standards and the ideals to which its people have attained.

Congress undoubtedly may and should utilize the treaty-making process as a part of the process by which it acts as the guardian of the nation's interests. This might be accomplished by Congress providing in the act or resolution determining its procedure that in case the adoption of the Covenant should be approved by Congress, the Covenant should then go to the Senate, which should act upon the Covenant as a treaty, determining the question of its ratification by two-thirds vote.

It would seem clear that Congress, in thus exercising this extraordinary power of acting as the guardian of the interests of all the people in determining whether it is advisable for the United States to enter into a union with foreign states, is not obliged to sit, or to proceed, in the manner which the Constitution establishes for it when it is exercising its strictly legislative powers. If this interpretation is correct, it would follow that Congress, in the act or resolution determining its procedure in this extraordinary case, might provide that the two Houses should sit in joint session and deliberate by states, the senators and congressmen from each state con-

stituting the state delegation and each state delegation having one vote. It might also be provided that the question whether the Covenant should be approved by Congress should be determined in the affirmative only by the affirmative vote of three-fourths of the states, cast by the state delegations in the manner mentioned. The principle established by the Constitution that the assent of three-fourths of the states is necessary for amending the Constitution, would thus be preserved. If Congress should thus decide that it was advisable for the United States to enter into the Covenant, the Senate would then proceed to deliberate upon the ratification of the Covenant as a treaty, and if it should ratify the treaty by a two-thirds vote, there would be every probability that the union proposed by the Covenant is worthy the adherence of the United States.

It is not derogatory to the Senate that a special procedure of the kind suggested should be adopted, according to which the legislative power and the treaty-making power would act jointly. The question whether independent states shall voluntarily yield a portion of their independence in order to enter a union, is of too high and solemn a character to be decided by a single branch of the government of a state. The legislature and the executive must together perform the great duty and take the great responsibility. It is for this reason that the Covenant will be submitted for adoption to the parliaments of the other states which are to be the members of the League.

The question of the right of Congress to participate in determining whether the United States shall enter the League, is not a question of the right of the House of Representatives to act in the making of treaties, though the modern tendency is strongly in the direction of allowing the popular branch of the legislature to participate in the making of all important treaties. It is one thing to hold that Congress, as guardian of the interests of all the people, has the right and duty, under the law of nations and the Constitution, to participate with the ordinary treaty-making organs of the United States in determining whether the United States shall adopt a treaty having the nature of a super-constitution, which, if adopted, will change the character of our government by converting what have been the foreign relations of the United States into external domestic relations. It is a wholly different thing to

hold that the House of Representatives has the right under the Constitution to participate in the making of all treaties of the ordinary kind or even in those of great economic or political importance.

The reasons why the power to make ordinary treaties was conferred on the President and Senate and not on Congress, are thus stated by William Rawle in his book above cited, *A View of the Constitution of the United States of America* (ed. 1829, page 65). Speaking of the alternatives which presented themselves to the Constitutional Convention as respects the branch or branches of the government which should be the depositary of the ordinary treaty-making power, he said that the choice was between vesting this power "in Congress generally, in the two Houses exclusive of the President, in the President conjointly with them or one of them, or in the President alone."

He thus states the reasons which determined the choice in favor of the President and Senate (pages 65, 66) :

The formation of a treaty often requires secrecy and dispatch, neither of which could be found in the first or second mode, and a contrary plan would be inconsistent with the usages of most nations. It remained then either to vest it in the President singly, or to unite one of the other bodies with him. The latter was obviously preferable, and all that remained was to select the one whose conformation appeared most congenial to the task. The Senate is a smaller body, and therefore, whenever celerity was necessary, the most likely to promote it. It was a permanent body; its members, elected for a longer time, were most likely to be conversant in the great political interests which would be agitated, and perhaps it was supposed that, as representatives in one point of view rather of the states than of the people, a federative quality appertained to them not wholly unconnected with the nature of a foreign compact.

The reasons stated by Rawle are those which have always been understood to have influenced the Constitutional Convention in vesting the treaty-making power in the President and Senate. These reasons were no doubt excellent at the time (though now steadily growing less and less cogent) and fully justified the Constitutional Convention in making the decision which it did concerning the depositary of the power to make ordinary treaties. But these reasons did not have in 1787, and have not now, any application to that extraordinary treaty-making and constitution-making power which is exer-

cised when an independent state enters into a treaty of union. In this extraordinary case, there is no need for either secrecy or dispatch. The need is for publicity and for slow and calm deliberation. There is no reason to suppose that the Senate will be more "conversant in the political interests" involved than the whole Congress of the United States. Such a treaty is not entered into primarily by the states of the Union, but by the people of the United States primarily and by the states incidentally, and the Congress of the United States is, by the law of nations and the Constitution, the guardian of the vital and fundamental interests and rights of the people of the United States when these great interests are affected by a constitutional document having the form of a treaty, which is proposed to the United States for its adoption.

The effect of the proposed Covenant will be, as has been above shown, to change our relations with all the states which shall be members of the League from foreign relations into external domestic relations. If this be its true effect, the fact will be that, in case the United States shall decide to enter the League, it will find itself without proper organs to enable it to maintain its rights and to fulfil its duties under the League unless it shall previously have instituted such organs. The State Department is organized to deal with foreign relations; the others to deal with internal relations. It is not generally realized that we have always had some external domestic relations. We have always had external domestic territories which were incorporated into the Union; and by the Spanish War we acquired insular countries which are still in subordinate and dependent union with the United States. Our relations with some of these subordinately united countries are in charge of the War Department; our relations with others of them are in charge of the Interior and Navy Departments. The use of these departments as organs of the government for handling these kinds of external domestic relations serves for the present in view of the powerlessness of these subordinately united regions; but such use of the existing departments will not be possible when the vast volume of external domestic relations which will arise from the moment when the League comes into operation, and which will daily grow in extent and insistency, is poured upon the United States. In order to

meet this new situation successfully, it will be necessary to be prepared in advance with suitable organs of government, under penalty of the vast loss which is certain to be caused to any nation in every case in which it permits itself to be unprepared to meet a great emergency.

A question which the United States must face and at once settle, if it decides to enter the League, therefore, is: What kind of an organ is necessary to handle successfully the new external domestic relations of the United States with the other states of the League? The answer would seem to be that there must be a new department of the government to deal with these relations. On account of the mixed character of these relations, it seems that the new organ or department should be composed of the heads of those existing departments which deal with our foreign relations and with such of our domestic relations as have an international aspect. The action taken by Congress during the war in establishing the Council of National Defence, would seem to furnish a precedent in instituting the new organ. When the United States entered into association with the powers of the European Entente, to prosecute the war against the Central Powers, its relations with the Entente Powers became, for the period of the war, assimilated to external domestic relations rather than to foreign relations. In order to prosecute the war successfully, there had to be both national concentration and international cooperation. To meet the situation arising from the existence of these new relations, there was established by act of Congress (Army Appropriation Act, approved August 29, 1916, Sec. 2, U. S. Statutes at Large, Vol. 39, pages 619, 649, 650) a Council of National Defence which was virtually a department of the government, but was of a composite character. The function of the new department was declared to be "the co-ordination of industries and resources for the general welfare". It was provided that there should be two parts of the new organ, an upper and a lower body. The upper body, or Council of National Defence proper, was to consist of the Secretary of War, the Secretary of the Navy, the Secretary of the Interior, the Secretary of Agriculture, the Secretary of Commerce and the Secretary of Labor. The lower body was called the "advisory commission". The act provided that it

was to be composed of not more than seven persons, nominated by the Council and appointed by the President, and that each of these persons should "have special knowledge of some industry, public utility, or the development of some natural resource, or be otherwise specially qualified, in the opinion of the Council, for the performance of the duties" of the department. Provision was also made for the appointment of expert sub-commissions and of individuals as expert investigators. The duties of the Council, as specified in the act, were, as follows:

To supervise and direct investigations and make recommendations to the President and the heads of executive departments as to the location of railroads with reference to the frontier of the United States, so as to render possible expeditious concentration of troops and supplies to points of defence; the co-ordination of military, industrial and commercial purposes in the location of extensive highways and branch lines of railroad; the utilization of waterways; the mobilization of military and naval resources for defence; the increase of domestic production of articles and materials essential to the support of armies and of the people during the interruption of foreign commerce; the development of sea-going transportation; data as to amounts, location, method and means of production, and availability of military supplies; the giving of information to producers and manufacturers as to the class of supplies needed by the military and other services of the Government, the requirements relating thereto, and the creation of relations which will render possible in time of need the immediate concentration and utilization of the resources of the Nation.

The reason why this statute was adopted and the new organ or department instituted was that it had been found by experience that the external domestic relations of the United States with its associates during the war could be handled successfully only by a new department of the government adapted to bring about the requisite national concentration and international cooperation. In order to cooperate in a military association with other states, the United States found it necessary to visualize itself and to act, as a unit of a union, for producing and placing in the field an army and navy provided with adequate food, shelter and munitions of war, so long as the war should last.

Peaceful cooperation with other states will also require the United States to visualize itself and to act permanently, as a unit of a union for producing and placing in the field an army of organizers and workers provided with adequate food,

shelter, and the appurtenances of civilization adapted to the pursuit of happiness, for utilizing the materials and forces of nature for human benefit and equitably distributing the product among the states, peoples and individuals of the world. In order to deal successfully with these new and vast external domestic relations which will arise under a union which, like the one proposed, is "to promote international cooperation and to achieve international peace and security", it will be necessary, it would seem, to institute by act of Congress, a new organ or department of the government, based on the principles of the Council of National Defence. The new department might perhaps be called "The National Council of International Cooperation". It might be composed of the Secretary of State, as chairman, and the Secretary of the Interior, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and the Secretary of Labor. The same provision for the appointment of the expert advisory commission and of sub-commissions and expert advisers and investigators should undoubtedly be made. The function of the new department would be to investigate and inform itself concerning all matters falling within the jurisdiction of the League and to advise the President and Congress concerning any of these matters regarding which the United States might be called upon to make a decision.

The underlying principle upon which to base the action of the United States, in establishing such a new department would be that cooperative life is an art which can be acquired only by study and experience. It is a fact of general knowledge that only persons and nations of high attainments in intelligence and conscientiousness can appreciate the reasons and motives of enlightened self-interest which form the basis of the cooperative philosophy and actually do what cooperation requires. The units of a cooperative society must all be equally well-informed, intelligent and conscientious. International cooperation is impossible except by intelligent and conscientious nations, each of which has its own organ of investigation and judgment dealing with the affairs of the world in all their phases and acting as adviser to its executive and its legislature.

The institution of such a department as above outlined, con-

temporaneously with the entry of the United States into any super-union, is dictated not merely by principle. It is enjoined upon us also by considerations of prudence. The proposed Covenant, or any other similar super-constitution, if adopted, will establish a body in the world which, even though given only advisory powers, will exercise a great influence. Experience proves that such an influence will tend to become actual political power. One has only to remember the influence and power which the Roman Papacy has had and still has in the affairs of the world, and that which great newspapers, like the *London Times* of a half-century ago, have exercised in international politics, to realize that advisory power in a person or personality of acknowledged leadership, especially if accompanied with the power of investigation and publication, must be classed, in its actual effect, as real political power. Against even the advisory action of a body recognized as having international leadership, each nation must be prepared. Each nation must have knowledge of world affairs equal to that of the body sitting at Geneva, or the advice of Geneva will be in effect the command of a superior to an inferior. The United States, in particular, must be prepared for the new emergency; for, if it is not intellectually prepared to meet with facts and arguments the advice emanating from Geneva, its geographical location may lead to political situations in which the body sitting at Geneva, voicing the sentiment of Europe, or of Europe and Asia, may succeed in giving advice to the United States or to America which will in fact be a command. Against such contingencies, provision should, it seems, be made at the instant the United States decides to enter into the League, if it does so decide. To delay the institution of the new department or organ would tend to involve the nation in a maze of complications caused by the attempt of the existing departments to deal with the new relations. It seems clear, therefore, that the question of the adoption of the Covenant and of the institution of the new department should be considered and decided together so that the moment the League begins to operate, at that moment the new department of the United States may begin also to operate. The principle that "eternal vigilance is the price of liberty" evidently applies to the new situation presented by the proposal to enter the League, in all its phases, present and future.

APPENDIX ¹

COVENANT FOR THE LEAGUE OF NATIONS SHOWING THE PRELIMINARY REPORTED DRAFT AND THE COVENANT AS FINALLY ADOPTED AT THE PLENARY SESSION

PRELIMINARY DRAFT

DRAFT FINALLY ADOPTED

COVENANT—PREAMBLE

In order to promote international co-operation and to secure international peace and security by the acceptance of obligations not to resort to war, by the prescription of open, just, and honorable relations between nations, by the firm establishment of the understandings of international law as the actual rule of conduct among Governments, and by the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organized people with one another, the powers signatory to this covenant adopt this constitution of the league of nations.

The high contracting parties, in order to promote international co-operation, to achieve international peace and security by the acceptance of obligations not to resort to war, by the prescription of open, just, and honorable relations between nations, by the firm establishment of the understandings of international laws as the actual rule of conduct among governments and by the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organized peoples with one another, agree to this covenant of the league of nations.

ARTICLE I.

The original members of the league of nations shall be those of the signatories which are named in the annex to this

¹ Submitted by Senator Key Pittman. Published together with President Wilson's addresses in reporting the covenant at the Preliminary Peace Conference and at the Plenary Session of the Peace Conference. Sen. Doc. 7, 66th Cong., 1st Sess., May 20, 1919. The full text of the Treaty of Peace, including this Covenant, has been published in the Congressional Record of July 10, 1919, and as Sen. Doc. 49, 66th Cong., 1st Sess.

covenant and also such of those other States named in the annex as shall accede without reservation to this covenant. Such accessions shall be effected by a declaration deposited with the secretariat within two months of the coming into force of the covenant. Notice thereof shall be sent to all other members of the league.

See Par. 1, Article 7.

Any fully self-governing State, dominion, or colony not named in the annex may become a member of the league if its admission is agreed by two-thirds of the assembly, provided that it shall give effective guaranties of its sincere intention to observe its international obligations and shall accept such regulations as may be prescribed by the league in regard to its military and naval forces and armaments.

See Par. 2, Article 7.

Any member of the league may, after two years' notice of its intention so to do, withdraw from the league, provided that all its international obligations and all its obligations under this covenant shall have been fulfilled at the time of its withdrawal.

ARTICLE I.

The action of the high contracting parties under the

ARTICLE 2.

The action of the league under this covenant shall be ef-

terms of this covenant shall be effected through the instrumentality of meeting of a body of delegates representing the high contracting parties, of meeting at more frequent intervals of an executive council, and of a permanent international secretariat to be established at the seat of the league.

ARTICLE 2.

Meetings of the body of delegates shall be held at stated intervals and from time to time as occasion may require for the purpose of dealing with matters within the sphere of action of the league.

Meetings of the body of delegates shall be held at the seat of the league or at such other place as may be found convenient, and shall consist of representatives of the high contracting parties.

Each of the high contracting parties shall have one vote, but may not have more than three representatives.

fectured through the instrumentality of an assembly and of a council, with a permanent secretariat.

ARTICLE 3.

The assembly shall consist of representatives of the members of the league.

The assembly shall meet at stated intervals and from time to time as occasion may require, at the seat of the league or at such other place as may be decided upon.

The assembly may deal at its meetings with any matter within the sphere of action of the league or affecting the peace of the world.

At meetings of the assembly each member of the league shall have one vote, and may have not more than three representatives.

ARTICLE 3.

The executive council shall consist of representatives of the United States of America, the British Empire, France, Italy, and Japan, together with representatives of four other States, members of the league. The selection of these four States shall be made by the body of delegates on such principles and in such manner as they think fit. Pending the appointment of these representatives of the other States, representatives of ——— shall be members of the executive council.

Meetings of the council shall be held from time to time as occasion may require, and at least once a year, at whatever place may be decided upon, or, failing any such decision, at the seat of the league, and any matter within the sphere of action of the league or affecting the peace of the world may be dealt with at such meetings.

ARTICLE 4.

The council shall consist of representatives of the United States of America, of the British Empire, of France, of Italy, and of Japan, together with representatives of four other members of the league. These four members of the league shall be selected by the assembly from time to time in its discretion. Until the appointment of the representatives of the four members of the league first selected by the assembly, representatives of ——— shall be members of the council.

With the approval of the majority of the assembly, the council may name additional members of the league, whose representatives shall always be members of the council; the council with like approval may increase the number of members of the league to be selected by the assembly for representation on the council.

The council shall meet from time to time as occasion may require, and at least once a year, at the seat of the league, or at such other place as may be decided upon.

The council may deal at its meetings with any matter within the sphere of action of the league or affecting the peace of the world.

Invitations shall be sent to any power to attend a meeting of the council at which matters directly affecting its interests are to be discussed, and no decision taken at any meeting will be binding on such powers unless so invited.

ARTICLE 4.

All matters of procedure at meetings of the body of delegates or the executive council, including the appointment of the committees to investigate particular matters, shall be regulated by the body of delegates or the executive council, and may be decided by a majority of the States represented at the meeting.

The first meeting of the body of delegates and of the executive council shall be summoned by the President of the United States of America.

Any member of the league not represented on the council shall be invited to send a representative to sit as a member at any meeting of the council during the consideration of matters specially affecting the interests of that member of the league.

At meetings of the council each member of the league represented on the council shall have one vote, and may have not more than one representative.

ARTICLE 5.

Except where otherwise expressly provided in this covenant, or by the terms of this treaty, decisions at any meeting of the assembly or of the council shall require the agreement of all the members of the league represented at the meetings.

All matters of procedure at meetings of the assembly or of the council, the appointment of committees to investigate particular matters, shall be regulated by the assembly or by the council, and may be decided by a majority of the members of the league represented at the meeting.

The first meeting of the assembly and the first meeting of the council shall be summoned by the President of the United States of America.

ARTICLE 5.

The permanent secretariat of the league shall be established at ———, which shall constitute the seat of the league. The secretariat shall comprise such secretaries and staff as may be required, under the general direction and control of a secretary general of the league, who shall be chosen by the executive council;

the secretariat shall be appointed by the secretary general, subject to confirmation by the executive council.

The secretary general shall act in that capacity at all meetings of the body of delegates or of the executive council.

The expenses of the secretariat shall be borne by the States members of the league in accordance with appointment of the expenses of the International Bureau of the Universal Postal Union.

ARTICLE 6.

See Par. 2, Article 2.

ARTICLE 6.

The permanent secretariat shall be established at the seat of the league. The secretariat shall comprise a secretariat general and such secretaries and staff as may be required.

The first secretary general shall be the person named in the annex; thereafter the secretary general shall be appointed by the council with the approval of the majority of the assembly.

The secretaries and the staff of the secretariat shall be appointed by the secretary general with the approval of the council.

The secretary general shall act in that capacity at all meetings of the assembly and of the council.

The expenses of the secretariat shall be borne by the members of the league in accordance with the apportionment of the expenses of the International Bureau of the Universal Postal Union.

ARTICLE 7.

The seat of the league is established at Geneva.

The council may at any time decide that the seat of the league shall be established elsewhere.

All positions under or in connection with the league, including the secretariat, shall be open equally to men and women.

Representatives of the high contracting parties and officials of the league when engaged on the business of the league shall enjoy diplomatic privileges and immunities, and the buildings occupied by the league or its officials or by representatives attending its meetings shall enjoy the benefits of extraterritoriality.

Representatives of the members of the league and officials of the league when engaged on the business of the league shall enjoy diplomatic privileges and immunities.

The buildings and other property occupied by the league or its officials or by representatives attending its meetings shall be inviolable.

ARTICLE 7.

Admission to the league of States not signatories to the covenant and not named in the protocol hereto as States to be invited to adhere to the covenant requires the assent of the not less than two-thirds of the States represented in the body of delegates, and shall be limited to fully self-governing countries, including dominions and colonies.

No State shall be admitted to the league unless it is able to give effective guaranties of its sincere intention to observe its international obligations, and unless it shall conform to such principles as may be prescribed by the league in regard to its naval and military forces and armaments.

See Par. 2, Article 1.

ARTICLE 8.

The high contracting parties recognize the principle that the maintenance of peace will require the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations, having special regard to the geographical situation and circumstances of each State; and the executive council shall formulate plans for effecting such reduction.

The executive council shall also determine for the consideration and action of the several governments what military equipment and armament is fair and reasonable in proportion to the scale of forces laid down in the program of disarmament, and these limits, when adopted, shall not be exceeded without the permission of the executive council.

The high contracting parties agree that the manufacture by private enterprise of munitions and implements of war lends itself to grave objections, and direct the executive council to advise how the evil

ARTICLE 8.

The members of the league recognize that the maintenance of a peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations.

The council, taking account of the geographical situation and circumstances of each State, shall formulate plans for such reduction for the consideration and action of the several Governments.

Such plans shall be subject to reconsideration and revision at least every 10 years.

After these plans shall have been adopted by the several Governments, limits of armaments therein fixed shall not be exceeded without the concurrence of the council.

The members of the league agree that the manufacture by private enterprise of munitions and implements of war is open to grave objections. The council shall advise how the evil effects attendant upon

effects attendant upon such manufacture can be prevented, due regard being had to the necessities of these countries which are not able to manufacture for themselves the munitions and implements of war necessary for their safety.

The high contracting parties undertake in no way to conceal from each other the condition of such of their industries as are capable of being adapted to warlike purposes or the scale of their armaments, and agree that there shall be full and frank interchange of information as to their military and naval programs.

ARTICLE 9.

A permanent commission shall be constituted to advise the league on the execution of the provisions of article 8 and on military and naval questions generally.

ARTICLE 10.

The high contracting parties undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all States members of the league. In case of any such aggression, or in case of any threat or danger of such aggression,

such manufacture can be prevented, due regard being had to the necessities of those members of the league which are not able to manufacture the munitions and implements of war necessary for their safety.

The members of the league undertake to interchange full and frank information as to the scale of their armaments, their military and naval programs, and the condition of such of their industries as are adaptable to warlike purposes.

ARTICLE 9.

A permanent commission shall be constituted to advise the council on the execution of the provisions of articles 1 and 8 and on military and naval questions generally.

ARTICLE 10.

The members of the league undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all members of the league. In case of any such aggression, or in case of any threat or danger of such aggression, the council shall

the executive council shall advise upon the means by which the obligation shall be fulfilled.

ARTICLE II.

Any war or threat of war, whether immediately affecting any of the high contracting parties or not, is hereby declared a matter of concern to the league, and the high contracting parties reserve the right to take any action that may be deemed wise and effectual to safeguard the peace of nations.

It is hereby also declared and agreed to be the friendly right of each of the high contracting parties to draw the attention of the body of delegates or of the executive council to any circumstances affecting international intercourse which threaten to disturb international peace or the good understanding between nations upon which peace depends.

ARTICLE 12.

The high contracting parties agree that should disputes arise between them which can not be adjusted by the ordin-

advise upon the means by which this obligation shall be fulfilled.

ARTICLE II.

Any war or threat of war, whether immediately affecting any of the members of the league or not, is hereby declared a matter of concern to the whole league, and the league shall take any action that may be deemed wise and effectual to safeguard the peace of nations. In case any such emergency should arise, the secretary general shall, on the request of any member of the league, forthwith summon a meeting of the council.

It is also declared to be the fundamental right of each member of the league to bring to the attention of the assembly or of the council any circumstance whatever affecting international relations which threatens to disturb either the peace or the good understanding between nations upon which peace depends.

ARTICLE 12.

The members of the league agree that if there should arise between them any dispute likely to lead to a rup-

ary processes of diplomacy they will in no case resort to war without previously submitting the question and matters involved either to arbitration or to inquiry by the executive council and until three months after the award by the arbitrators or a recommendation by the executive council; and that they will not even then resort to war as against a member of the league which complies with the award of the arbitrators or the recommendation of the executive council.

In any case under this article the award of the arbitrators shall be made within a reasonable time, and the recommendation of the executive council shall be made within six months after the submission of the dispute.

ARTICLE 13.

The high contracting parties agree that whenever any dispute or difficulty shall arise between them which they recognize to be suitable for submission to arbitration and which can not be satisfactorily settled by diplomacy, they will submit the whole matter to arbitration.

ture, they will submit the matter either to arbitration or to inquiry by the council, and they agree in no case to resort to war until three months after the award by the arbitrators or the report by the council.

In any case under this article the award of the arbitrators shall be made within a reasonable time, and the report of the council shall be made within six months after the submission of the dispute.

ARTICLE 13.

The members of the league agree that whenever any dispute shall arise between them which they recognize to be suitable for submission to arbitration and which can not be satisfactorily settled by diplomacy, they will submit the whole subject matter to arbitration. Disputes as to the interpretation of a treaty, as to any question of international law, as to the exist-

For this purpose the court of arbitration to which the case is referred shall be the court agreed upon by the parties or stipulated in any convention existing between them.

The high contracting parties agree that they will carry out in full good faith any award that may be rendered.

In the event of any failure to carry out the award, the executive council shall propose what steps can best be taken to give effect thereto.

ARTICLE 14.

The executive council shall formulate plans for the establishment of a permanent court of international justice, and this court shall, when established, be competent to hear and determine any matter

ence of any fact which if established would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration.

For the consideration of any such dispute the court of arbitration to which the case is referred shall be the court agreed on by the parties to the dispute or stipulated in any convention existing between them.

The members of the league agree that they will carry out in full good faith any award that may be rendered and that they will not resort to war against a member of the league which complies therewith.

In the event of any failure to carry out such an award, the council shall propose what steps should be taken to give effect thereto.

ARTICLE 14.

The council shall formulate and submit to the members of the league for adoption plans for the establishment of a permanent court of international justice. The court shall be competent to hear and deter-

which the parties recognize as suitable for submission to it for arbitration under the foregoing article.

ARTICLE 15.

If there should arise between States, members of the league, any dispute likely to lead to rupture, which is not submitted to arbitration as above, the high contracting parties agree that they will refer the matter to the executive council; either party to the dispute may give notice of the existence of the dispute to the secretary general, who will make all necessary arrangements for a full investigation and consideration thereof. For this purpose the parties agree to communicate to the secretary general, as promptly as possible, statements of their case with all the relevant facts and papers, and the executive council may forthwith direct the publication thereof.

Where the efforts of the council lead to the settlement of the dispute, a statement shall be published indicating the nature of the dispute and the terms of settlement, to-

mine any dispute of an international character which the parties thereto submit to it. The court may also give an advisory opinion upon any dispute or question referred to it by the council or by the assembly.

ARTICLE 15.

If there should arise between members of the league any dispute likely to lead to a rupture, which is not submitted to arbitration as above, the members of the league agree that they will submit the matter to the council. Any party to the dispute may effect such submission by giving notice of the existence of the dispute to the secretary general, who will make all necessary arrangements for a full investigation and consideration thereof. For this purpose the parties to the dispute will communicate to the secretary general, as promptly as possible, statements of their case, all the relevant facts and papers; the council may forthwith direct the publication thereof.

The council shall endeavor to effect a settlement of any dispute, and if such efforts are successful, a statement shall be made public giving such facts and explanations regarding

gether with such explanations as may be appropriate.

If the dispute has not been settled, a report by the council shall be published, setting forth with all necessary facts and explanations the recommendation which the council thinks just and proper for the settlement of the dispute.

If the report is unanimously agreed to by the members of the council other than the parties to the dispute, the high contracting parties agree that they will not go to war with any party which complies with the recommendations, and that if any party shall refuse so to comply the council shall propose measures necessary to give effect to the reason. If no such unanimous report can be made, it shall be the duty of the majority and the privilege of the minority to issue statements indicating what they believe to be the facts and containing the reasons which they consider to be just and proper.

the dispute, terms of settlement thereof as the council may deem appropriate.

If the dispute is not thus settled, the council, either unanimously or by a majority vote, shall make and publish a report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto.

Any member of the league represented on the council may make public a statement of the facts of the dispute and of its conclusions regarding the same.

If a report by the council is unanimously agreed to by the members thereof other than the representatives of one or more of the parties to the dispute, the members of the league agree that they will not go to war with any party to the dispute which complies with the recommendations of the report.

If the council fails to reach a report which is unanimously agreed to by the members thereof other than the representatives of one or more of the parties to the dispute, the members of the league reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice.

If the dispute between the parties is claimed by one of them, and is found by the council, to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the council shall so report and shall make no recommendation as to its settlement.

The executive council may in any case under this article refer the dispute to the body of delegates. The dispute shall be so referred at the request of either party to the dispute, provided that such request must be made within 14 days after the submission of the dispute.

In any case referred to the body of delegates all the provisions of this article and of article 12 relating to the action of the executive council shall apply to the action and powers of the body of delegates.

The council may in any case under this article refer the dispute to the assembly. The dispute shall be so referred at the request of either party to the dispute, provided that such request be made within 14 days after the submission of the dispute to the council.

In any case referred to the assembly all the provisions of this article and of article 12, relating to the action and powers of the council, shall apply to the action and powers of the assembly, provided that a report made by the assembly, if concurred in by the representatives of those members of the league represented on the council and of a majority of the other members of the league, exclusive in each case of the representatives of the parties to the dispute, shall have the same force as a report by the council concurred in by all the members thereof other than

the representatives of one or more of the parties to the dispute.

ARTICLE 16.

Should any of the high contracting parties break or disregard its covenants under article 12 it shall thereby ipso facto be deemed to have committed an act of war against all the other members of the league, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a member of the league or not.

It shall be the duty of the executive council in such cases to recommend what effective military or naval forces the members of the league shall severally contribute to the armed forces to be used to protect the covenants of the league.

The high contracting parties agree further that they will mutually support one another

ARTICLE 16.

Should any member of the league resort to war in disregard of its covenants under articles 12, 13, or 15, it shall ipso facto be deemed to have committed an act of war against all other members of the league, which hereby undertakes immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a member of the league or not.

It shall be the duty of the council in such cases to recommend to the several Governments concerned what effective military or naval forces the members of the league shall severally contribute to the armaments of forces to be used to protect the covenants of the league.

The members of the league agree, further, that they will mutually support one another

in the financial and economic measures which may be taken under this article, in order to minimize the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State, and that they will afford passage through their territory to the forces of any of the high contracting parties who are co-operating to protect the covenants of the league.

in the financial and economic measures which are taken under this article, in order to minimize the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State, and that they will take the necessary steps to afford passage through their territory to the forces of any of the members of the league which are co-operating to protect the covenants of the league.

Any member of the league which has violated any covenant of the league may be declared to be no longer a member of the league by a vote of the council concurred in by the representatives of all the other members of the league represented thereon.

ARTICLE 17.

In the event of disputes between one State member of the league and another State which is not a member of the league, or between States not members of the league, the high contracting parties agree that the State or States not members of the league shall be invited to accept the obligations of membership in the

ARTICLE 17.

In the event of a dispute between a member of the league and a State which is not a member of the league, or between States not members of the league, the State or States not members of the league shall be invited to accept the obligations of membership in the league for the purposes of such dispute, upon

league for the purposes of such dispute, upon such conditions as the executive council may deem just, and upon acceptance of any such invitation the above provisions shall be applied with such modifications as may be deemed necessary by the league.

Upon such invitation being given the executive council shall immediately institute an inquiry into the circumstances and merits of the dispute and recommend such action as may seem best and most effectual in the circumstances.

In the event of a power so invited refusing to accept the obligations of membership in the league for the purposes of such dispute, and taking any action against a State member of the league which in the case of a State member of the league would constitute a breach of article 12, the provisions of article 16 shall be applicable as against the State taking such action.

If both parties to the dispute, when so invited, refuse to accept the obligations of membership in the league for the purposes of such dispute, the executive council may take such action and make such recommendations as will prevent hostilities and will result in the settlement of the dispute.

such conditions as the council may deem just. If such invitation is accepted, the provisions of articles 12 to 16, inclusive, shall be applied with such modifications as may be deemed necessary by the council.

Upon such invitation being given, the council shall immediately institute an inquiry into the circumstances of the dispute and recommend such action as may seem best and most effectual in the circumstances.

If a State so invited shall refuse to accept the obligations of membership in the league for the purposes of such dispute, and shall resort to war against a member of the league, the provisions of article 16 shall be applicable as against the State taking such action.

If both parties to the dispute, when so invited, refuse to accept the obligations of membership in the league for the purposes of such dispute, the council may take such measures and make such recommendations as will prevent hostilities and will result in the settlement of the dispute.

ARTICLE 18.

The high contracting parties agree that the league shall be intrusted with general supervision of the trade in arms and ammunitions with the countries in which the control of this traffic is necessary and in the common interest.

See Par. 5, Article 23.

ARTICLE 18.

Every convention or international engagement entered into henceforward by any member of the league shall be forthwith registered with the secretariat and shall as soon as possible be published by it. No such treaty or intentional engagement shall be binding until so registered.

See Article 23.

ARTICLE 19.

The assembly may from time to time advise the reconsideration by members of the league of treaties which have become inapplicable, and the consideration of international conditions whose continuance might endanger the peace of the world.

See Article 24.

ARTICLE 20.

The members of the league severally agree that this covenant is accepted as abrogating all obligations or understandings inter se which are inconsistent with the terms

See Article 25.

thereof, and solemnly undertake that they will not hereafter enter into any engagements inconsistent with the terms thereof.

In case members of the league shall, before becoming a member of the league, have undertaken any obligations inconsistent with the terms of this covenant, it shall be the duty of such member to take immediate steps to procure its release from such obligations.

ARTICLE 21.

Nothing in this covenant shall be deemed to affect the validity of international engagements, such as treaties of arbitration or regional understandings like the Monroe doctrine for securing the maintenance of peace.

ARTICLE 19.

To those colonies and territories which as a consequence of the war have ceased to be under the sovereignty of the States which formerly governed them, and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well-being and development of such peoples form a sacred trust of

ARTICLE 22.

To those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the States which formerly governed them and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world there should be applied the principle that the well-being and development of such peoples form a sacred trust of

civilization and that securities for the performance of this trust should be embodied in the constitution of the league.

The best method of giving practical effect of this principle is that the tutelage of such peoples should be intrusted to advanced nations who, by reason of their resources, their experience, or their geographical position, can best undertake this responsibility, and that this tutelage should be exercised by them as mandatories on behalf of the league.

The character of the mandate must differ according to the stage of the development of the people, the geographical situation of the territory, its economic conditions, and other similar circumstances.

Certain communities formerly belonging to the Turkish Empire have reached a stage of development where their existence as independent nations can be provisionally recognized, subject to the rendering of administrative advice and assistance by a mandatory power until such times as they are able to stand alone. The wishes of these communities must be a principal consideration in the selection of the mandatory power.

civilization and that securities for the performance of this trust should be embodied in this covenant.

The best method of giving practical effect to this principle is that the tutelage of such peoples be intrusted to advanced nations, who, by reasons of their resources, their experience, or their geographical position, can best undertake this responsibility, and who are willing to accept it, and that this tutelage should be exercised by them as mandatories on behalf of the league.

The character of the mandate must differ according to the stage of the development of the people, the geographical situation of the territory, its economic condition, and other similar circumstances.

Certain communities formerly belonging to the Turkish Empire have reached a stage of development where their existence as independent nations can be provisionally recognized, subject to the rendering of administrative advice and assistance by a mandatory until such time as they are able to stand alone. The wishes of these communities must be a principal consideration in the selection of the mandatory.

Other peoples, especially those of Central Africa, are at such a stage that the mandatory must be responsible for the administration of the territory, subject to conditions which will guarantee freedom of conscience or religion, subject only to the maintenance of public order and morals, the prohibition of abuses, such as the slave trade, the arms traffic, and the liquor traffic, and the prevention of the establishment of fortifications or military and naval bases, and of military training of the natives for other than police purposes and the defense of territory, and will also secure equal opportunities for the trade and commerce of other members of the league.

There are territories, such as Southwest Africa and certain of the South Pacific isles, which, owing to the sparseness of their population, or their small size, or their remoteness from the centers of civilization, or their geographical continuity to the mandatory State, and other circumstances, can be best administered under the laws of the mandatory State as integral portions thereof, subject to the safeguards above mentioned in the interests of indigenous population.

Other peoples, especially those of Central Africa, are at such a stage that the mandatory must be responsible for the administration of the territory under conditions which will guarantee freedom of conscience or religion, subject only to the maintenance of public order and morals, the prohibition of abuses, such as the slave trade, the arms traffic, and the liquor traffic, and the prevention of the establishment of fortifications or military and naval bases and of military training of the natives for other than police purposes and the defense of territory, and will also secure equal opportunities for the trade and commerce of other members of the league.

There are territories such as southwest Africa and certain of the South Pacific islands, which, owing to the sparseness of their population or their small size or their remoteness from the centers of civilization or their geographical contiguity to the territory of the mandatory and other circumstances, can be best administered under the laws of the mandatory as integral portions of its territory, subject to the safeguards above mentioned in the interests of the indigenous populations.

In every case of mandate the mandatory State shall render to the league an annual report in reference to the territory committed to its charge.

The degree of authority, control, or administration to be exercised by the mandatory State shall, if not previously agreed upon by the high contracting parties in each case, be explicitly defined by the executive council in a special act or charter.

The high contracting parties further agree to establish at the seat of the league a mandatory commission to receive and examine the annual reports of the mandatory powers, and to assist the league in insuring the observance of the terms of all mandates.

ARTICLE 20.

The high contracting parties will endeavor to secure and maintain fair and humane conditions of labor for men, women, and children, both in their own countries and in all countries to which their commercial and industrial relations extended; and to that end agree to establish as part of the organization of the league a permanent bureau of labor.

In every case of mandate the mandatory shall render to the council an annual report in reference to the territory committed to its charge.

The degree of authority, control, or administration to be exercised by the mandatory shall, if not previously agreed upon by the members of the league, be explicitly defined in each case by the council.

A permanent commission shall be constituted to receive and examine the annual reports of the mandatories and to advise the council on all matters relating to the observance of the mandates.

See Par. 2, Article 23.

ARTICLE 21.

The high contracting parties agree that provision shall be made through the instrumentality of the league to secure and maintain freedom of transit and equitable treatment for the commerce of all States members of the league, having in mind, among other things, special arrangements with regard to the necessities of the regions devastated during the war of 1914-1918.

See Par. 6, Article 23.

ARTICLE 23.

Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the members of the league

(a) will endeavor to secure and maintain fair and humane conditions of labor for men, women, and children, both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organizations;

(b) undertake to secure just treatment of the native inhabitants of territories under their control;

(c) will intrust the league with the general supervision over the execution of agree-

See Article 20.

See Article 18.

See Article 21.

See Article 25.

ARTICLE 22.

The high contracting parties agree to place under the control of the league all international bureaus already established by general treaties if the parties to such treaties consent. Furthermore, they agree that all such international bureaus to be constituted in future shall be placed under the control of the league.

ments with regard to the traffic in opium and other dangerous drugs;

(*d*) will intrust the league with the general supervision of the trade in arms and ammunition with the countries in which the control of this traffic is necessary in the common interest;

(*e*) will make provision to secure and maintain freedom of communication and of transit and equitable treatment for the commerce of all members of the league. In this connection the special necessities of the regions devastated during the war of 1914-1918 shall be in mind;

(*f*) will endeavor to take steps in matters of international concern for the prevention and control of disease.

ARTICLE 24.

There shall be placed under the direction of the league all international bureaus already established by general treaties if the parties to such treaties consent. All such international bureaus and all commissions for the regulation of matters of international interest hereafter constituted shall be placed under the direction of the league.

In all matters of international interest which are regu-

lated by general conventions but which are not placed under the control of international bureaus or commissions, the secretariat of the league shall, subject to the consent of the council, and if desired by the parties, collect and distribute all relevant information, and shall render any other assistance which may be necessary or desirable.

The council may include as part of the expenses of the secretariat the expenses of any bureau or commission which is placed under the direction of the league.

ARTICLE 23.

The high contracting parties agree that every treaty or international engagement entered into hereafter by any State member of the league shall be forthwith registered with the secretary general and as soon as possible published by him, and that no such treaty or international engagement shall be binding until so registered.

See Article 18.

ARTICLE 24.

It shall be the right of the body of delegates from time to time to advise the reconsideration by State members of the league of treaties which have become inapplicable and of international conditions of

See Article 19.

which the continuance may endanger the peace of the world.

ARTICLE 25.

The members of the league agree to encourage and promote the establishment and co-operation of duly authorized voluntary national Red Cross organizations having as purposes improvement of health, the prevention of disease and the mitigation of suffering throughout the world.

ARTICLE 25.

The high contracting parties severally agree that the present covenant is accepted as abrogating all obligations inter se which are inconsistent with the terms thereof, and solemnly engage that they will not hereafter enter into any engagements inconsistent with the terms thereof. In case any of the powers signatories hereto or subsequently admitted to the league shall before becoming a party to this covenant have undertaken any obligations which are inconsistent with the terms of this covenant, it shall be the duty of such power to take immediate steps to procure its release from such obligations.

See Article 20.

ARTICLE 26.

Amendment to this cove-

ARTICLE 26.

Amendments to this cove-

nant will take effect when ratified by the States whose representatives compose the executive council and by three-fourths of the States whose representatives compose the body of delegates.

nant will take effect when ratified by the members of the league whose representatives compose the council and by a majority of the members of the league whose representatives compose the assembly.

No such amendment shall bind any members of the league which signifies its dissent therefrom, but in that case it shall cease to be a member of the league.

ANNEX TO THE COVENANT.

1. Original members of the league of nations.

Signatories of the treaty of peace: United States of America, Belgium, Bolivia, Brazil, British Empire, Canada, Australia, South Africa, New Zealand, India, China, Cuba, Czechoslovakia, Ecuador, France, Greece, Guatemala, Haiti, Hedjaz, Honduras, Italy, Japan, Liberia, Nicaragua, Panama, Peru, Poland, Portugal, Roumania, Serbia, Siam, Uruguay.

States invited to accede to the covenant: Argentina, Chile, Colombia, Denmark, Netherlands, Norway, Paraguay, Persia, Salvador, Spain, Sweden, Switzerland, Venezuela.

2. First secretary general of the league of nations.

SOLVING THE RAILROAD PROBLEM

T. W. VAN METRE

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A DISTINGUISHED railroad president said in a recent address, "The railroad problem has not changed, nor is it shrouded in mystery. It is this: railroad earnings and credit must be created sufficient to support the existing railroad investment and attract the additional capital the transportation business requires in the public interest." At first thought one is inclined to say, "If the railroad problem is so simple why are we having all this hubbub and confusion about solving it?" Second thoughts, however, with their usual disagreeable habit of transforming simplicity into complexity, inform us that the railroad problem, as expressed by the distinguished railroad president, is the problem of every other business, and of every individual in the world. It is the old problem of making both ends meet. There is no mystery involved in the mere statement of this universal problem. But when we attempt to solve it simplicity vanishes and mystery enters; our simultaneous equations have altogether too many unknown quantities.

It is generally recognized that in creating the earnings sufficient to support the existing railroad investment and attract new capital three results will be achieved: (1) The public will receive reasonably adequate and efficient service from existing transportation facilities; (2) labor will have reasonably adequate wages and satisfactory working conditions; (3) investors will obtain a reasonable return on their invested capital. Before we can devise a program to bring about these results it is necessary to make certain inquiries. What is the reasonably adequate and efficient service which the public has a right to expect from existing transportation facilities? What are reasonable wages and working conditions for railroad labor? What is reasonable remuneration for railroad investors? The railroad problem begins to leave the realm of simplicity. Let us go farther. Who shall answer these questions? Upon what facts shall the answers be based? And after these questions are answered, what machinery shall we devise to translate the answers into effective action?

In view of the complexity of the railroad problem it is amaz-

ing how many infallible solutions have been presented. It is but fair to note that the author of each "plan" declaims with patriotic fervor, that his plan is best because it is the only one in which the public interest is the paramount consideration. There has never been a time in which the public interest has been so completely indentified with so many strongly opposed private interests.

Notwithstanding the extensive discussion of the railroad problem during recent months, little progress has been made toward a satisfactory solution. There have been no frank and specific replies to the questions which must be answered before a satisfactory program of regulation can be adopted. What answer do we have from investors, for instance, to the questions concerning the return on capital? It has been suggested by certain groups that rates should be made to yield a return of six per cent on property investment. What is the property investment in railroads? Railroad property accounts for the years preceding 1908 are quite worthless. Physical valuation will not show the value of investment. Capitalization does not show it. Some people are, by implication, urging the "validation" of present railroad capitalization, asserting that the water injected into railroad securities in times past has long since been absorbed through the process of putting "earnings back into the property." Even if this were admitted to be true, the question at once arises as to how we should consider these reinvested earnings in the regulation of rates.

Should we finally agree upon the investment value of the railroads, and decide that rates should be made to yield a return of six per cent on this value, we should have the problem of equalizing the earnings of "weak" and "strong" roads. The suggestion that the strong roads give up all their earnings in excess of six per cent. arouses bitter opposition among the officials and stockholders of the strong roads. They unanimously urge that capital receive an "incentive" in the way of adequate return. What is an adequate return? At least six per cent. Very well, here is a virtual guarantee of six per cent. with the understanding that all excess earnings be returned to the public treasury. But the confiscation of earnings above six per cent. would destroy "incentive." This incentive is a tender flower. It is hard to escape the conclusion that the chief stockholders and managers of the strong roads desire rates to be made high enough to insure adequate

returns for the weakest roads. It is pleasant for them to contemplate what such rates would mean. "The strong roads," they say, "should be allowed to earn well above any minimum so that in lean years the public will not be asked to pay increased rates." Present and past experiences with railroad companies and street car companies hardly justify confidence in statements of this nature. Owners of street railway monopolies, when making exorbitant profits out of a five-cent fare justify their returns because of the great "risk" assumed. When the risk overtakes them their refuge is not the surplus of fat years, but a "flexible" fare.

All classes of labor are now alert and suspicious. The wages of railroad employees have been raised again and again during the past four years, but the leaders still declare wages "inadequate." Veiled threats of strikes and hints regarding "conspiracies" on the part of railroad managers to reduce wages when private operation is restored serve to warn us of a constantly impending danger. Efforts are being made to pass anti-strike laws, and the laborer wants to know if the Government has any more right to commandeer underpaid labor than it has to require the unproductive investment of capital. Labor leaders denounce an anti-strike law which does not contain a "bill of rights," a labor code, which will insure to labor a reasonable wage. But the nearest approach which a labor leader makes to defining a reasonable wage is his never failing assertion of the inadequacy of the present wages being paid. Labor frowns upon all talk of making future reductions in wages commensurate with possible future reductions in the cost of living. What labor has gained, that will labor hold. Perhaps the leaders have a vague idea of getting something more than a minimum in order that they will not find it necessary in "lean years" to ask for increased pay.

There is little doubt that a satisfactory solution of our present railroad problem must be based upon some definite conception of what is a reasonable return to capital and to labor. Though it will probably never be possible to satisfy these two interests, some way must be found to appease them. In return the public must demand efficient and honest service from both capital and labor. We apparently never get tired, though we have abundant opportunity, of being told that the transportation system of the United States is the most efficient and economical transportation system in the world. In fact it is constantly repeated that all business activities, except the post-office, are carried on more ef-

ficiently in the United States than in any other country. We need to be awakened. How can anybody having a part in the operation and management of the rail-and-water terminal facilities of New York City boast about the efficiency of our transportation system? Moreover, the waste, inefficiency and incompetence displayed in New York have their counterparts in virtually all the other great terminals of the United States. If machinery is not created to bring about by compulsion the elimination of waste and inefficiency in our railroad terminals the public will be cheated of its due. Had the railroad managers used existing equipment with all possible efficiency in 1917 the Government would have remained out of the railroad business.

Another feature of the reasonably adequate and efficient service which the public has a right to demand is the development of cheap water transportation, especially along the sea-coasts, and the coordination of rail and water carriers. We talk to-day about increasing production. One of the greatest economic sins committed in this country has been the deliberate efforts of railroad interests to decrease the production of transportation by employing unfair methods to destroy water competition. Such sabotage deserves the strongest condemnation and it should not be allowed to continue.

It is not impossible that our attempts to solve the railroad problem will eventually result in government ownership of railroads. Though most students of transportation do not look with favor upon government ownership of railroads in the United States there are none who will deny its possibility and few who deny its probability. The promise of satisfactory legislation in the near future is not bright. If the roads are turned back to their owners without provision for the adequate protection of labor, capital, and the public, government ownership is inevitable.

Government ownership will probably not come by the adoption of the Plumb Plan. Nor will government ownership mean that the nation has turned to Socialism. If government ownership comes it will be an expedient, a measure of last resort, the only feasible way out of a troublesome situation. While government ownership is to be deprecated it is not to be feared. A great many men are exhibiting genuine concern about the rule of ninety-eight million people by two million. In so doing they cast most unpleasant reflections upon the intelligence of the ninety-eight million, of which they are themselves a part.

Whether we are to have government ownership in the near future depends entirely upon the ability of Congress to frame a law which will make private ownership and operation possible. It is impossible for Congress to enact a law which will satisfy all private interests. It would be unwise for Congress to enact a law which would completely satisfy any single private interest. And if the diverse interests involved in the settlement of the railroad problem do not soon adopt a spirit of concession and conciliation, and evince a willingness to have their cases tried on their merits, without the introduction of so much prejudiced testimony, any law which Congress may pass will create such discontent that private ownership will be immediately endangered.

THE SENATE COMMITTEE RAILROAD BILL

ALBERT B. CUMMINS*

U. S. Senator from Iowa, Chairman Senate Committee on Interstate
Commerce

I THINK no one realizes more completely or fully than I do the magnitude and the difficulties of the task of railroad regulation. There are in this country something like 260,000 miles of main-track railway. These systems of railways serve 100,000,000 people and furnish them with their chief means of transportation and communication. It is obvious that any system of transportation in a commercial, civilized country is the basic fundamental industry of that country, for without adequate facilities for communication and transportation and without a service rendered for reasonable compensation the growth and development of the country is impossible.

The problem that we have before us is vastly more complicated and intricate than is presented in the transportation problem of any other country in the world. This is due to the extent of our country, the variety of its production, and the dissimilarity of conditions under which business is carried on, as well as the dissimilarity of conditions under which transportation is furnished.

I believe that transportation is a governmental function. A single reflection upon the conditions throughout the world as well as in our own country will demonstrate that the furnishing of transportation to a commercial people is a governmental function. Aside from those in the United States, substantially all of the railways of the world are owned and operated by the governments of the various countries. I might qualify that by saying that Great Britain has not yet become the owner of her railways, but her policy at this time is one that is the equivalent of government ownership and operation.

While I believe transportation to be a governmental function, I am nevertheless of the opinion that the policy of private ownership and operation of railroads should be continued in the United States. The only reason that I am in favor of private ownership and private operation is because I believe that better and cheaper transportation can be furnished to the people of this country

* This article is an abridgment of the speech delivered by Senator Cummins in the Senate, as printed in the Congressional Record of December 4, 1919. It was prepared by the Editor with the consent of Senator Cummins.

through the instrumentality of private ownership and private operation than can be furnished to the people of the country through direct Government operation; but there is nothing inconsistent with the best forms of government in Government ownership and operation of our systems of transportation. The Government has the right to select the agencies or instrumentalities which will most certainly render to the people the service they require, and, if the Government believes, as I believe, that the services can be rendered and will be rendered more adequately and more cheaply through private corporations under strict public supervision it has the right, of course, and it is its duty, of course, to select such agencies for the purpose of rendering the service which all the people require.

Private operation of railways cannot be continued as a permanent policy unless there is a radical change in our system of regulation. There is but one course which will insure successful private operation. Our Interstate Commerce Commission has been a faithful, intelligent body of men. They have made mistakes now and then, which I have not hesitated to criticize; but, on the whole, I think they have attempted to do their duty as they have seen their duty. It has been, however, utterly impossible for the Interstate Commerce Commission to establish a body of rates in the United States that would enable the railway systems of the Nation to maintain themselves. It has been utterly impossible for any body of men to make a system of rates that will sustain the weaker railroads of the country without giving the stronger railroads an income excessive and intolerable in its extent; and there lies the great, fundamental obstacle in our system of rate making. The Interstate Commerce Commission can no more give to each railway of the United States the return to which it is fairly entitled than it can annihilate distance or overcome any other law of nature; and for that reason, when the Government took possession of the railroads, some of the railroads were earning enormous and excessive incomes, while other railroads were struggling against adversity, and were utterly incapable of rendering to their communities the service to which those communities were fairly entitled; and it was obvious, I think, to the students of the subject, long before the Government took possession, that we must adopt some plan that would remove this inherent, fundamental difficulty.

According to the decisions of the Supreme Court of the United

States, and according to the views of every other tribunal in all the world of which I have ever heard, they have this general idea with regard to the regulation of public utilities: That is to say, if a public utility is fairly constructed, if it is properly and efficiently managed, it has a right under the Constitution to earn a fair return upon the investment, upon the value of the property which renders the services—not upon the value of the property as determined by a capitalization of its earnings under a given body of rates—but it has a constitutional right to earn, as against regulation, a fair return upon the value of the property—that is, its investment—if it has been honestly constructed and is efficiently operated. The Supreme Court of the United States has declared that doctrine over and over again. It is idle for us to attempt, even if we were to desire to attempt, to escape the principle which the courts have laid down. It is a just principle; it is fair and honest; and I, for one, do not desire to escape it.

In the case of a railroad that is earning, we will say, 1 per cent upon that fair investment under honest management, why is it not earning more than 1 per cent? It is not earning more than 1 per cent for two reasons: First, our regulating tribunals have determined the rates upon which it shall do business. We have interfered with its liberty in the transaction of its business to that extent; but if we have not interfered directly we have attached those rates to some competitor which can do business upon, we will assume, the body of rates which I have premised, and that renders the unfortunately situated property incapable of earning more. Now, I believe that any such system is not only unfair but it is unconstitutional as well.

We are agreed that we can not raise the rates upon the weaker properties so that they will be self-sustaining, because that would give to the stronger properties, which move 70 per cent of the business of the United States, an income so excessive that it would not be tolerated for a single month. Therefore that solution must be discarded. We can not give to the stronger properties the rates which would return for them no more than a fair interest upon the value of their property and that alone, because that means death to the weaker properties which must compete with them in traffic, and, of course, upon the same terms, so far as rates are concerned. So we must inquire further. We must find some other way in which we can maintain the general trans-

portation system of the United States and promote the welfare of our people. We must find some other way in which to do it. How can we accomplish it?

You may inquire as you will, you may study it as deeply as you may, but you will finally reach the conclusion that it can only be done through consolidation. There are various kinds of consolidation. The problem can be solved by Government ownership because that is complete consolidation. If the Government owned and operated all the railroads of the United States it would, I take it, establish charges for transportation which would pay the cost of maintenance and operation and the interest upon whatever indebtedness might be created in acquiring the properties. It would then be compelled either to raise the rates and charges or to appropriate from the Treasury, if our past history is to be accepted as a lamp for our guidance in the future, something like a billion dollars a year in order to construct such additions, betterments, and enlargements as the progress and growth of the country would demand.

That is one way in which this problem can be reached, and it is a perfectly logical way in which to reach it, because it then reduces the transportation of the United States to a common level, and the United States becomes responsible for furnishing facilities in every quarter of the country.

There are two kinds of consolidation which may be pursued in private ownership with continued private operation. The first is complete consolidation of all the railway properties of the United States in one corporation. That is a plan which has some advantages. There are unquestionably some advantages in complete unification, complete control over all the railroads of the United States as a single transportation facility.

The plan adopted by the Senate Committee, however, is consolidation into comparatively few systems. The bill provides that they shall be consolidated in not less than 20 nor more than 35 systems. I think it ought to be not less than 16 nor more than 30 or 35 systems, but that probably does not affect the merit of the proposal itself.

I am in favor of comparatively few systems because it will permit the play of competition in service, and, although you will regard me as exceedingly heterodox and possibly as unobservant of the history of the past, I say competition in rates also.

This suggestion which has gone abroad over the country and which everybody has received and apparently accepted that there is no competition in rates under the regulation which we have provided is not well founded.

I am in favor of several systems so related to each other that they can carry traffic for substantially the same cost as compared with the value of their property, because it does permit, it invites, it commands that honorable rivalry in business which in my judgment is the mainspring of success in every enterprise. I am looking toward advances of socialism with extreme regret mainly because I believe that that theory of Government destroys the initiative, the energy, the progress of mankind. I want to preserve in the railway service all of those moving forces which can possibly be retained.

I do not attach so great importance to the competition or rivalry so far as rates are concerned as I do to the rivalry in service. The latter begins with a desire to please the people who either ride upon trains or whose property is transported from one place to another. It means attention, it means courtesy, it means a concern for the public mind that could not be secured in any other way than through the opportunity of the public to pass from one service to another. It means infinitely more when we come to consider the ease with which one patron is served and the ease with which the desires of another may be denied; the furnishing of cars promptly, the movement of cars speedily, the effort made in every quarter, through every employee, to do the work at hand in the most efficient manner in which it is capable of being done.

This is the reason the committee has decided that it would be better to consolidate the railroads of the United States into not less than 20 nor more than 35 systems, in order to accomplish, first, the possibility of imposing a given body of rates upon the carriers with the outcome that each of the systems would earn substantially the same net return as compared with the value of the property employed in the service; and, second, in order to give this great business, this overpowering business, the same motive for efficiency and excellence that we observe, and hope we always will observe, in every other great venture.

There can be little question of the practicability of a division of the railway properties into not less than 20 nor more than 35 systems that will accomplish the purposes I have described. The

committee has not acted without the utmost consideration on that question and without all the information that it could secure. The committee—and I speak more confidently of my own convictions—knows that it is practicable to divide the railways of the United States into not less than 20 nor more than 35 systems, so that tested by the business of the three years before the war—and that is the period to which we must all resort in order to obtain information upon that subject—the net earnings of each system compared with the value of the property rendering the service, I care not how the value of the property is ascertained—will be so nearly equal that the difference will be negligible. I venture the prophecy that if the provisions of this bill shall ever go into effect the governmental body which is appointed to make the division and to carry out the provisions of the bill will be able to divide the country into 20 systems, and there will not be the difference of one-quarter of 1 per cent in the earnings, the net income, of the several systems as compared with the value of the properties as fixed by the Interstate Commerce Commission.

Then, if we pursue the policy of private ownership, we will have a body of railroads upon which the Interstate Commerce Commission can act, doing justice both to the people and to those who have invested their money in the properties. Then the Interstate Commerce Commission can make rates that will pay to the carriers, as nearly as human foresight can provide, just enough to make a fair return upon the value of the property.

I have pointed out at some length the views of the committee—and they are my own views as well—upon this fundamental proposal, because it is the heart of the bill. If it is not thought desirable to make this advance toward the regulation of these public utilities, my judgment would be that it is not advisable to pass the bill at all, for if the roads are to be returned under the regulations which formerly existed, believing, as I do, that private operation under such conditions is impossible and that it will end in utter collapse, I will necessarily find myself advocating the assumption upon the part of the Government of the duty of owning and operating our transportation facilities.

How is this consolidation to be accomplished? The bill proposes to create a Transportation Board, which is to undertake to divide all the railways of the United States, with some immaterial exceptions, into not less than 20 nor more than 35 systems.

The discretion between 20 and 35 is vested in the Board by section 9 of the bill, which reads as follows:

SEC. 9. It is hereby declared to be the policy of the United States in the exercise of its authority to regulate commerce among the States and with foreign nations and its other constitutional powers, that the railways of the continental United States shall, as soon as may be practicable, and in the manner hereinafter provided, be divided in ownership and for operation into not less than 20 nor more than 35 separate and distinct systems, each of said systems to be owned and operated by a distinct corporation organized or reorganized under this act.

In the aforesaid division of the said railways into such systems competition shall be preserved as fully as possible, and wherever practicable the existing routes and channels of trade and commerce shall be maintained. The several systems shall be so arranged that the cost of transportation as between competitive systems and as related to the value of the properties through which the service is rendered shall be the same so far as practicable, so that these systems can employ uniform rates in the movement of competitive traffic and under efficient management earn substantially the same rate of return upon the value of the railway properties involved in the comparison.

This might be called the charter of the new system. It is further developed in section 10 by providing that the Transportation Board shall make this division and then give public notice to all who are interested of a hearing upon it, and at that hearing all who may be interested either from the capital standpoint or the labor standpoint or the shipping standpoint will be heard, and after that hearing is concluded then the Board adopts a plan, whatever plan may seem to it wise, and if that plan of division is approved by the Interstate Commerce Commission it becomes final, save as it may be modified upon subsequent application by anyone who may present a good cause for reconsideration in that respect.

For a period of seven years the consolidations are voluntary. If any railway company desires to organize a Federal corporation under the provisions of this bill, a new corporation can be organized. If, on the other hand, a corporation already organized desires to reorganize so as to become a Federal corporation, it may do so under the terms of this bill; but the consolidation that takes place during the seven years must be either through the medium of a corporation organized under the terms of the bill or through a corporation reorganized under the terms of the bill. We have made practically the same provision for reincorporating State corporations that was made long ago for the reincorporation of national banks, turning a national bank from a State institution into a Federal institution. One or the other of these two things must precede any consolidation which takes place under the bill.

I may say a word with regard to the seven years. The only reason for postponing compulsory consolidation for a single moment, in my judgment, is that the work of the Interstate Commerce Commission in valuing the railroad properties may be completed. It is said that this work will have been finished in the course of two or three years.

It may, however, be five years before it is finally and fully done; and inasmuch as these incorporations, whether reorganizing or originally incorporating, must be based upon the actual value of the railroad properties, it was quite essential that some time be given to the Interstate Commerce Commission to complete its work. In the case of a voluntary consolidation, it would be the duty of the Interstate Commerce Commission at once to go forward to the ascertainment of the value of the property immediately concerned in the voluntary consolidation, and to complete that particular part of the work at the earliest possible moment. And this leads me, now, to suggest an additional reason for the value which I attach to the consolidation.

All of us know that there has been a great deal of controversy, very much suspicion, infinite distrust among the people with respect to the value of railroad property as compared with the capitalization. Constitutionally we are unable to determine the value of railroad property, or even to indicate or declare the elements which a judicial tribunal shall consider in determining that value. Nevertheless, it is of the highest importance that in some way or other the feeling on the part of the people that they are called upon to contribute a revenue which is to be distributed upon unfounded capital shall be removed. It can only be removed in one of two ways. It must either be removed by ascertaining that the present capitalization is not greater than it should be—a contingency which does not meet my view of it—or it may be removed by reducing the capitalization to the real value of the property upon which the people are called upon to pay a return. This bill provides that the Interstate Commerce Commission shall ascertain the value of this property as the consolidations take place, and that the capitalization of these new corporations which are brought into existence in the manner I have described shall not exceed the value of the railroad property; and once this principle is adopted and once these consolidations shall have taken place, the terror which we all have in mind, known as the unearned increment, can no longer disturb the American people.

I want as much as anyone can want that the people shall be called upon to pay only upon an actual value; and while I know that we can not determine for the past years what value is and what elements it shall contain, for the future we can; and if these consolidations are carried into effect the future is safe, so far as unearned increment is concerned and so far as values are concerned. We will have that matter settled for all time.

Section 6 of the bill provides that the territory and the railroads of the United States shall be divided by the Interstate Commerce Commission into rate-making districts, as many as the Commission thinks desirable. Having established the districts and having ascertained the value of the property in a given district, the Commission is directed to make rates or to approve rates that will as nearly as may be return an aggregate net operating income for all the railroads of that district equal to $5\frac{1}{2}$ per cent on the value of the property in that district. The committee believes that $5\frac{1}{2}$ per cent fairly represents the policy of Congress with respect to a return upon railway property. Originally, as I introduced the bill from the subcommittee, instead of a $5\frac{1}{2}$ per cent rate, the provision was for a fair return upon the value of the property, but it was believed by the majority of the committee that it would be better for Congress to declare the policy rather than to transfer it or commit it to any regulating body. So for the first time in the history of railway regulation it is suggested that Congress shall declare what it regards as a fair return upon the value of property rendering a public service, and that fair return, according to the provisions of the bill, is $5\frac{1}{2}$ per cent upon the value of the property involved.

This $5\frac{1}{2}$ per cent does not relate to capitalization; it does not relate to capital stock; it does not relate to outside investments vast in their extent which some of the companies own and hold for profit. It relates only to the property which renders service to the public.

The bill also gives to the Interstate Commerce Commission authority to increase that basis by one-half of 1 per cent, if it so desires to do, solely for the purpose of creating a fund for expenditures for what are known as nonproductive improvements and which are not under any circumstances to be capitalized, but which, in substance, will be held by the railway companies in trust for the public.

Now, let us see what $5\frac{1}{2}$ per cent will do. Five and a half

per cent upon the value of the property in a given rate-making district does not mean that each railroad shall have $5\frac{1}{2}$ per cent upon the value of its property. It means that one railroad will earn 8 per cent upon the value of its property, another railroad will earn 3 per cent or 5 per cent, some of them 2 per cent, some of them possibly, as high as 10 per cent. That arises from the disparity in the earning capacity of the roads. When you put a given body of rates upon the territory lying between Chicago and New York, we will say, rates which must be used in common by the New York Central, the Pennsylvania, the Baltimore & Ohio, the Erie, the Chesapeake & Ohio, and so on, one of those roads will earn very much more than $5\frac{1}{2}$ per cent while another will earn very much less than $5\frac{1}{2}$ per cent. That is the insoluble problem under present conditions. We can not escape it in a moment; nothing can remove it except the consolidation of which I have spoken. However, until that consolidation takes place we must deal with it as best we can. That brings me to another feature of the section to which I have been alluding and which I intend to discuss just as briefly as possible.

The bill proposes that any railway company which receives an operating income during any year of more than 6 per cent upon the value of its property shall divide equally the excess between 6 and 7 per cent between a company reserve fund and a general railroad contingent fund. The first portion belongs to the company itself, the latter belongs to the Government of the United States. The first is to be used by the company whenever its operating income falls below 6 per cent. It is to be accumulated from year to year until it reaches 5 per cent upon the value of the property. After that time the company retains one-third of the excess above 6 per cent and pays to the Transportation Board or to the Government two-thirds of the excess. The excess above 7 per cent goes one-fourth to the company reserve fund and three-fourths to the Government. The Government contingent fund has no limit and is to be used by the Transportation Board to advance the general transportation interests of the United States. However, it is not given so free a hand as my remarks might indicate, for it is provided in the bill that the promotion of the general transportation interests must be effected either by the purchase of equipment and of transportation facilities to be rented or leased to the weaker railroad companies, or it must be used by loaning to the weaker companies sums of

money to be expended in the purchase of facilities to render the service which the people require. That is the best that the committee could do in this transition period to equalize the spread in the earnings of the companies.

We were constantly impressed with the idea that we must accomplish in some way the maintenance of the weaker companies. We know that, judged by the ordinary standards of credit, when they go into the markets of the country they will be unable to borrow the money necessary to keep their properties in that condition necessary for economical and efficient use. So we propose to take from the larger railroad companies a portion of their excess earnings above 6 per cent and devote them to increasing the facilities in the hands of the companies which are unable to purchase or construct them for themselves.

I regard it not only as one of the most vital but most equitable features of the bill, as much and bitterly as it has been attacked.

I will say one word with regard to the attacks upon that feature of the bill. Singularly enough, it is assailed from two quarters. The railway executives, representing the railroads, attack it bitterly on the ground that it is not only unjust but unconstitutional, and some very enthusiastic citizens of the country who have no interest in railways attack it on the ground that it is an approach toward socialism or communism and ought not, therefore, to be fostered, encouraged, or adopted.

A moment's consideration may not remove doubt with regard to its constitutionality, for I can not hope to remove a doubt in a moment that has been instilled by so distinguished an authority as an ex-Justice of the Supreme Court of the United States; but I at least can point out the path along which the committee traveled in reaching the conclusion that the provision was and is constitutional.

Ex-Justice Hughes has rendered an opinion in which he says that that part of the bill is unconstitutional because it takes property from its owner without just compensation. Ex-Senator Elihu Root, occupying an equally commanding position at the bar of the country, is just as confident that it is constitutional. The lawyers have ranged themselves, a great many of them, upon one side or the other of this question; but I am bound to say that so far as they have been organized up to this time, a decided preponderance in number, at least, will be found upon the side of the committee, which holds that the provision is constitu-

tional. To me there is no question about it. I do not want to disparage the learning of any man, certainly not his intelligence, but to me the proposition that this provision is unconstitutional means the destruction of all regulation. If it is true that we can not limit the earnings of a public utility, a common carrier, we might as well abandon our efforts to protect the people in any system of regulation.

I have no question at all with regard to either the justice of the provision or its constitutionality. We have pursued this narrow, cramped, and restrictive policy long enough. If Congress is not able to lift itself above the murky prejudices of former years, and examine transportation from a national standpoint, and establish those regulations which are necessary for the welfare of all the people, we must either go at once to Government ownership and operation, or leave the railway companies untrammelled and unrestricted to impose on the people of the country for their service just such charges as they may think best.

Section 24 of the bill relates to the issuance of railway securities. For years there has been a constant and general demand that in some way or other the Federal Government shall undertake the supervision of the issuance of railway securities. A bill to that end passed the House at one time and was reported favorably by the Committee on Interstate Commerce of the Senate. However, it did not receive consideration in the Senate, and therefore never became a law. But I think there is no real opposition to a provision which confers upon the Interstate Commerce Commission, or some other Federal agency, the supervision of the issuance of railway securities, in that way relieving the railway companies of the regulation of 40 of the 48 States of the Union.

Section 34 is an enlargement of the car-service act, which it is unnecessary for me to comment upon at any great length. The car-service act passed in 1917 was intended to give to the Government a larger function with respect to the movement of commodities, the movement of trains, the supply of cars, and all matters pertaining to the general disposition of our commerce. In this section too, we have attempted to give the Government the right to prevent construction of new lines. The very difficulties we have heard urged so often have arisen at times because railroads have been constructed where and when they ought not to have

been constructed. So we have given to the Interstate Commerce Commission, in connection with the Board, the jurisdiction to prevent the construction of new lines where obviously the construction would simply impose another burden upon the public without adding anything to the public welfare.

We have also given to the Government wider and broader power with respect to furnishing adequate and safe facilities, so that the Commission or the Board can command railroad companies to equip their lines with proper facilities and to procure the necessary cars and engines to transact their business with promptitude, all the while, of course, conditioned upon the power of the companies to comply with the demands or the commands of the Government. It would be idle to require a company that could not secure the money with which to do it to buy additional cars or additional engines, or anything of that kind.

We have rewritten in section 37 what is known as the long-and-short-haul clause. That will give rise undoubtedly to some discussion. We have not adopted the positive, rigid, long-haul provision. We still permit, under section 37 of the bill, some discretion on the part of the Interstate Commerce Commission. We have said to the Interstate Commerce Commission that it could grant the privilege to any company to charge more for a shorter than for a longer distance in the same direction, but that in doing so the rate for the longer distance must be found by the Commission to be a compensatory rate.

A compensatory rate, I assume, means a rate which will enable the railway company charging it to defray the cost of maintenance and operation and that will also bear its just share of the return upon capital.

Another modification that we have made in section 4 of the interstate commerce act is that where there are two competitive land lines, one longer than the other, that under no circumstances must the longer line charge more to an intermediate point not farther from the origin than the haul on the short line than it charges for the competitive point. It must not charge more for the same distance than the rate charged on the short line. That, I think, will correct a good many injustices that have occurred in the application of the law as it exists.

We are all familiar with what is known as the anti-pooling section of the Interstate Commerce Act. That section now reads:

Sec. 5. (as amended Aug. 24, 1912). That it shall be unlawful for any

common carrier subject to the provisions of this act to enter into any contract, agreement, or combination with any other common carrier or carriers for the pooling of freights of different and competing railroads, or to divide between them the aggregate or net proceeds of the earnings of such railroads, or any portion thereof; and in any case of an agreement for the pooling of freights as aforesaid, each day of its continuance shall be deemed a separate offense.

That is the law at the present time. The change that is proposed in this section of the act to regulate commerce is to insert after the word "that" the words:

Except upon specific approval by order of the commission as in this section provided.

Then there is added the following:

Provided, That whenever the commission shall be of the opinion, after hearing, upon application of any carrier or carriers, by railway or water, subject to this act, that the division of traffic or earnings between any such carrier or carriers will be in the interest of better service to the public, economy in operation, or otherwise of advantage to the convenience of commerce and the people, and will tend to equalize earnings between the said carriers and will not unduly restrain competition, the commission shall have authority, by order, to approve and authorize such division of traffic or earnings between carriers under such rules and regulations, and for such consideration as between said carriers and upon such terms and conditions, and for such length of time, as shall be found by the commission to be just and reasonable in terms.

The commission may from time to time, for good cause shown, make such supplemental orders in the premises as it may deem necessary or appropriate, and may by any such supplemental order modify or set aside the provisions of any previous order as to the extent of the division, or as to the rules, regulations, terms, conditions, or consideration currently moving in respect of any such divisions so theretofore approved and authorized. The same procedure as to filing of applications and serving of notice of hearing upon proper State authorities with opportunity to be heard shall be had as is provided in section 24 of this act relating to "securities."

It is apparent that this provision is not only an important one but is a radical departure from the policy which we have heretofore pursued. It is intended in this way to give to the Interstate Commerce Commission the authority, practically, to unify the railroads of the country prior to the consolidation which is provided for in the bill. All of us have observed that the one great advantage of Government ownership is the unification which may take place and the ability on the part of common carriers to choose that route for the traffic which is most economical and which will best serve the public interest. It was thought by the committee that, at least in the transition period—and this has no limitation in point of time—but especially for the transition period, the commission should have the power to control the railway companies in the respect I have just mentioned.

For years there has been a conflict between the jurisdiction

of the Federal Government and the jurisdiction of the State governments with regard to the adjustment of rates. All know that the Constitution of the United States confers upon Congress the authority to regulate commerce among the States and with foreign nations. Obviously, this authority is limited to the regulation or control of interstate commerce and matters that are inseparably connected with or incident to interstate commerce. The Supreme Court of the United States has had occasion in at least three separate cases to discuss the subject.

Many are familiar with what is known as the Shreveport decision. In that series of cases it was alleged that the State of Texas had established rates for intrastate traffic—that is, for the movement of traffic from one point in the State to another point in the State—which discriminated against the rates which the Interstate Commerce Commission had established for the movement of traffic from points beyond the State into the State, and the particular community which complained and which gave the name to the case I have mentioned was Shreveport. It complained that it could not do business with the State of Texas in competition with rivals located in the State, for the reason that the business men within the State were shipping freight at a much lower rate, comparatively, than the Interstate Commerce Commission had found to be reasonable from Shreveport into the State.

I need not follow that case in all its phases; but it finally reached the Supreme Court of the United States and the Supreme Court held that the authority of the Federal Government as it could be vested in the Interstate Commerce Commission extended to the removal of a discrimination between the interstate rates and the intrastate rates, but no authority had been given by Congress to the Commission to declare what the intrastate rate should be in comparison with the interstate rate.

The committee has attempted simply to express the decisions of the Supreme Court of the United States. We have not attempted to carry the authority of Congress beyond the exact point ruled by the Supreme Court in the cases to which I have referred; and the only thing we have done in the matter has been to confer upon the Interstate Commerce Commission the authority to remove the discrimination, when established in a proper proceeding before that body—an authority which it does not now have. As it is now, all that can be done is for the Commission to go forward from time to time and condemn and enjoin

the State rates until they finally reach the level which, in the judgment of the commission, is no discrimination.

Section 44 of the bill deals with the problem of the length of time that the commission may suspend rates which are filed by the carrier. As the law now is, each carrier has a right, and is required, if it desires to change the rates, to file its schedule of rates with the Interstate Commerce Commission. The Commission can then, upon summary investigation or inquiry, suspend those rates pending an investigation. Under the law, as it is, it has the authority to suspend them for 120 days, and then it was given the authority if it did not finish the inquiry within that time, to extend the time for another period of six months. The latter period has been shortened in this bill to a period of 30 days.

The reason for that is this: In the first place, the Interstate Commerce Commission has been overworked. There is no body of men in the employ of the Government, or exercising governmental functions, upon which so great a weight of labor has fallen as the Interstate Commerce Commission, and it is utterly impossible for it to fulfill its full duties as the law now is. But we have undertaken in this bill to create a new governmental function known as the Transportation Board, and we have given to that board many of the important duties which are now performed by the Interstate Commerce Commission, and endeavored in that way to relieve the latter body of some of its labor; and we hope that we have accomplished that purpose to such an extent as that the Commission will be able promptly to decide all the matters which are brought before it.

Broadly speaking, we have left with the Interstate Commerce Commission what might be described as semi or quasi judicial powers, rate making in all its phases, the valuation of railroad property in all its aspects, accounting absolutely necessary as an incident to rate making and to valuation. These are in the main the great branches of labor which are left with the Interstate Commerce Commission. The purely administrative duties, those duties which have to do with the physical operation of the railway properties, are transferred to the Transportation Board.

I desire to mention briefly section 45. It is entirely new, and it is an effort to coordinate land and ocean traffic. We have not given to the Interstate Commerce Commission any authority to regulate or control or to fix rates for what is known as port-to-port traffic, whether inland or exterior, and we do not propose to

do so. Everybody understands that we can not put upon ocean traffic or coastwise or coast-to-coast traffic or even upon river traffic the same regulations that are very advisable with regard to land traffic.

We are now hoping to enlarge our foreign business. We are endeavoring to make it as easy as possible for the business men of America to ship their goods anywhere throughout the world. The Shipping Board is trying, I think faithfully, to establish a series of ocean routes with boats having regular sailings and regular routes as well.

The great corporations of the country, the great producers, such as the United States Steel Corporation or other corporations of that character, are able to maintain their agents everywhere, which serve as a medium of information to such shippers, and they know when the boats sail and where they go and what the rates are, and are in every way able to reach a foreign country or foreign countries in the most convenient way. That is not true of the small shippers of the land. They do not know when these boats sail and where they go. They do not know what the ordinary rates are upon these ocean-going ships.

Section 45 provides that every ocean-going steamship company and every coastwise or coast-to-coast company with a regular route and with regular sailings shall file with the Transportation Board a schedule containing the dates of the sailings of its ships and the routes over which its ships travel, together with the ordinary rates which are charged for transportation. These schedules are required to be filed with the transportation board, and they are then given to the land carriers, the railroads, and the railway companies are required to maintain that compilation of information in every office designated by the Transportation Board. It is the thought of the committee that the Board would designate the important or the chief centers of production and of shipment.

Then any man who has a shipment destined for some foreign port, for Liverpool, Hongkong, Melbourne, or for San Francisco or New Orleans, even though he may not be able to maintain a commission man at the port or any other of the conveniences which the great shippers enjoy, may take to any railroad office in the country his shipment and deliver it to the land carrier, and the land carrier must issue to him a through bill of lading. It then becomes the duty of the land carrier to deliver the shipment

to the boat in whose care it is consigned, and the land carrier must absorb in the charge for the land carriage the cost of transfer from the railway train to the boat. In that way we will have established all over the United States a system which I think will tend to increase largely our export trade and coast-to-coast trade.

The part of the bill which I have reserved for final consideration is that which proposes that the Government shall adjudicate the disputes which may arise between employees of railway companies and the corporations, and which forbids a conspiracy or combination for the purpose of preventing the movement of commodities in interstate commerce.

I venture to say that no provision in any bill submitted to Congress in recent years has been more generally discussed throughout the country than the one to which I have just referred. There are some very extravagant praises for it; there are some very unjust denunciations of it. I look upon it as a vital part not only of this bill but vital part of our policy in the future so far as the basic industries of America are concerned. The committee has endeavored to find a solution of one of the most complicated and difficult problems ever presented to a legislative body. I am not prepared to affirm that the committee has discovered the only solution, and I am sure its members will be very glad to receive any suggestions that may make the arrangement which we have provided for more just or more efficient; but I speak for substantially every member of the committee, a very large majority of the committee, when I say that it is our profound conviction that the civilization of America—I was about to say the civilization of the world—can not continue, can not endure unless organized society can find some plan to preserve industrial peace and order. To me the thought that to accomplish justice for those who may be interested in any dispute it is necessary to either freeze or starve the American people is unthinkable and intolerable.

I have always, I believe, entertained for men who worked not sympathy—for men who work need no sympathy—but I believe that I have always held for them the keenest interest in the struggles in which they have been engaged and the most sanguine hope of their ultimate success in obtaining the justice to which I believe they are entitled. But that does not settle this controversy.

The committee recognized that transportation is the basic industry of the Nation. It may not be more important from one

aspect than many others, but none of the others can be conducted or carried on without transportation. Leave New York without transportation for two weeks and thousands of people will either starve or freeze, according to the season; indeed, they may do both. What I say of New York is true of Philadelphia, of Chicago, and of every great center of population.

We cannot contemplate that situation with any complacency at all. If we can not find some way in which to avoid a contingency of that kind, then our boasted and vaunted institutions are mere shadows, and we should escape from them as speedily as possible. There must be some way in which a democracy can administer justice to all its citizens, which will render them so far content that they will be willing to carry on their vocations with reasonable regularity and continuity.

I was the author of a somewhat famous statement or declaration in what is known as the Clayton anti-trust law that the labor of a human being is neither a commodity nor an article of commerce. I believed in the truth of that statement profoundly then, and I believe in it now with even deeper conviction. The labor of a human being is not a commodity; it ought not to be dealt with as a commodity; it ought not to be judged as a commodity; for it is a part of human energy that may solicit and ought to receive the same high consideration from the world, from every legislative body, as all other energies of the mind or the body. But I am just as much opposed to Mr. Foster dealing with human labor as a commodity as I am opposed to Mr. Gary dealing with it as a commodity.

It is just as fatal to the welfare of the United States to allow the American Federation of Labor to deal with labor as a commodity or as an article of commerce as it is to allow the National Association of Manufacturers to deal with it as an article of commerce or as a commodity. This declaration, for which I make no apology and of which I am as proud as I am of any other act of my life, means that labor is to be lifted above the rules which apply to mere inanimate things; it means that the laborer is a man and entitled to all the rights of a man, and that he should no more sell himself to a labor union than he should sell himself to a manufacturer. It applies to both and all with equal force and strength.

I do not want to be understood that I am opposed to labor unions. On the contrary, I think they are an essential part of

our industrial organization. I do not believe that we could long survive in peace and in order without labor unions. I think the gathering together of men in every occupation is not only defensible but I think it is highly beneficial and helpful in the maintenance of law and order. The laboring men in any particular enterprise or in any particular calling have just as much right to come together and work to promote their own interests and lift themselves up, if they can, in the great scale of human society as have the men of capital or the men of the professions, the men who labor, as it is said, with their minds instead of with their hands. I do not want it to be understood that there is in this bill or that there is in my mind any antipathy, any hostility, anything but admiration for labor unions.

I believe also in collective bargaining. There is no escape from collective bargaining. It is the decree of this age from which we ought not to attempt to escape. This bill is founded upon the necessity for labor unions, so far as the provisions to which I now have reference are concerned. It could not operate without the presence of labor unions. This bill recognizes collective bargaining; it can not be administered efficiently without collective bargaining.

It is said—it has been said to our committee—that this provision of the bill contravenes the natural rights of man, and is therefore unconstitutional. It is a very common thing to hear it said that this manacles the workingman, puts shackles upon his limbs, and reduces him to involuntary servitude. Nothing could be more wicked than an assertion of that character. This bill does not interfere with the rights of any employee of a railroad company or any official of any railroad company, because this bill applies equally to every person who serves a common carrier, if the common carrier is subject to the act to regulate commerce. The bill does not prevent, interfere with, or embarrass any man who desires to leave his employment. He can quit, or a hundred of them or a thousand of them can quit whenever they desire so to do. But I am not willing to allow the statement to go unchallenged that it is a fundamental and a constitutional right that every man can enjoy to quit his employment whenever he pleases. That is not true.

This bill does not interfere with his right at all; but a soldier can not quit whenever he desires. He can not cease his employment. An engineer upon a railway train can not quit when-

ever he may desire to quit. He can not leave his engine and his train so that human life would be imperiled, or so that property, even, might be injured. A physician or surgeon can not quit his employment whenever he may desire to quit, either morally or legally. He can not leave a dangerous operation half performed because it is his pleasure no longer to continue the work of his profession. I am mentioning these things simply to show that it is not true, broadly and fundamentally, that every man in the world can quit what he is doing at any moment he chooses to quit. The human right—and I am now speaking of the individual right rather than the group right—is subject to higher considerations than his pleasure.

This bill punishes only a combination or agreement between railway employees, and when I use the word “employees” I mean all the employees of the corporation, whatever their rank may be. Even if I were to grant that the individual right to cease employment or quit is perfect and complete, I could not grant that the right to enter into a combination or conspiracy to accomplish a purpose inimical to the welfare of society is a natural or constitutional right. This bill does not control the individual, but it controls the combination, the agreement, and it declares that if two or more persons, being employees of a carrier subject to the act to regulate commerce, shall enter into an agreement or a combination to suspend or prevent the movement in interstate commerce of commodities on which we are all dependent for life and for health for the purpose of enforcing some demand or claim against their employer, that such persons shall be guilty of a misdemeanor and shall be punished accordingly.

What right have I, who may believe I have a just claim against you, to enter into a conspiracy or combination or agreement with some other man or with some other men to deprive you of the necessities of life until you yield to the demand which I have made upon you? It is monstrous. It cannot be defended in any court of morals. A course of that kind cannot be defended in any court of civilization and progress.

The bill provides what it believes to be impartial tribunals for the adjudication of all disputes between the carriers and their employees. These tribunals, the details of which I shall not discuss, have jurisdiction of all the disputes which may come up from time to time between the railway corporations and their

employees. Remembering that we have provided a tribunal which we believe to be a just, fair, and impartial tribunal for the adjudication of all controversies of the character I have described, I hope that this thought will be in every mind, that we are substituting the justice of the Government of the United States for the justice which wage workers have hoped to secure through the strike. We are simply exchanging one instrumentality for another. We are offering an opportunity to secure justice which does not involve this awful sacrifice, which does not involve the wreck and ruin of industry, of homes, and of character. We are offering to do in controversies out of which railway strikes may arise just what our courts of justice have done for centuries with respect to controversies between man and man. Hitherto we have not regarded it as necessary that our Government should undertake the adjudication which is here provided for, and I have been very slow and very reluctant to go forward to that duty. But I perceive, and I have long perceived, that it is necessary, if we are to have regularity and continuity of employment. Therefore I am willing, on the part of my Government, to undertake to do full and complete justice, so far as wages and working conditions are concerned, to those who enter into employment of this character. I believe, and believe from the bottom of my heart, that the laboring men of America will be more apt to secure justice or approach perfect justice through the intervention of these tribunals for the settlement of their disputes than they have ever been able to secure through the medium of the strike.

THE HOUSE COMMITTEE RAILROAD BILL

HON. SCHUYLER MERRITT, M.C.,

Member House Committee on Interstate and Foreign Commerce

AFTER sitting for three months with the Interstate Commerce Committee in hearings which, when printed, occupied between three and four thousand pages, and after spending several weeks shaping the Esch Bill in Committee and passing it through the House, I had the pleasure of a call from the President of the Academy of Political Science, who did me the honor to ask me to summarize and characterize the bill in a twenty-minute address at the Academy's annual meeting. I immediately thought of the old and well-known story of the colored gentleman who was asked for a loan of ten dollars. He said, "Boss, I thank you for the compliment, but I haven't got the money."

I think before I even attempt to summarize the bill which has been passed by the House it is only justice for me to pay tribute to the sub-committee of the House, headed by Mr. Esch of Wisconsin, who is also the Chairman of the full Committee, for their labors in this field. Mr. Esch has been a member of the Interstate Commerce Committee for many years; he has taken part in all the great measures which have been passed in recent years to regulate the railways of this country. He is a man of great ability, with a judicial and honest mind. And if, as I believe, the labors of himself and his Committee have resulted in some contribution to a proper solution of this question, Mr. Esch is entitled to and should receive the appreciation of bodies like this and of the whole country.

Those of you who are old enough—not many, I think—will remember that when a conservative deacon in the church of Henry Ward Beecher reproached him for something startling or daring which he had said during a sermon, Beecher replied, "If you only knew some of the things I didn't say you would praise me instead of blame me." And so I think that whatever you may criticize in the bill which we actually have passed, you will at least praise us for some things that we have not passed. You will agree that we did well in not putting anything into the

bill which even looked toward public ownership. The Committee, from testimony and from independent study, became convinced that in all the states which had public ownership, such for example as Australia and France, where the conditions were not different from ours, the service was poorer, was more expensive and was tainted by politics. Nor was the Committee much influenced by the very long and able presentation of the plan called the Plumb Plan. This plan, as you know, contemplated the purchase of all the railways of the United States by the Government and turning them over to be operated by the members practically of the four great railway brotherhoods.

It was called in some of the literature that was put out an experiment or possibly a demonstration in democracy in the ownership and control of the railways. I agree that the Plumb Plan would be the embodiment of democracy in ownership because all the bills for buying the railroads amounting to some eighteen or twenty billions of dollars would be footed by the public. But, when it comes to the control, which is to be vested, under that plan, in fifteen directors, two-thirds of whom are to be elected in one way or another by the approximately two million employees of the railroads, that seems to me to be a case of introducing into this country the Soviet on a large scale, because you have two million people, something less than two per cent of the population, electing the directors to run the property which is bought by all the people. That property controls the entire industrial life of this country.

In addition to that, you will perceive that these two million men would be both employers and employed, and, if anything could tend to expense and to demoralization more than that, I do not know what it is. If I should characterize the Plumb Plan in a large way, I should say that it was a plan for two per cent of the population to elect a board of fifteen men to control the industrial life of this country, and secondly, a plan to drive brains out of running the railroads. I say that last, because you can see what a tremendous amount of wire pulling and politics would occur at once among the two million men on these roads to elect people to run them.

As it happens, the estimated wealth of the State of New York, the entire State of New York, is just about the same amount as is invested in railways to-day, and the number of voters is just about the same in the State of New York as would be in the

railroads under the Plumb Plan. Some of you know how much politics goes on in the effort to run the State of New York. But I do not think it would be a circumstance to the politics that would go on in the effort to run the railways, because the prize would be so much greater and the power would be so much greater. I think we can all agree that a book which President Hadley wrote thirty years ago contained a prediction which circumstances have shown to be very true in connection with state-owned railways and to be still more true with the relation to railways run under this Plumb Plan. President Hadley in his book said that the state is more likely to tax industry than to foster it, that state management is more costly than private management, that the political danger would be very great, that politics would tend to corrupt the railway management and the railway management would tend to corrupt politics.

I should not have taken even this amount of time to speak of the Plumb plan were it not for the fatal facility which so many people have for being deluded by pleasant sounding words, and the fatal habit which they have also of failing to examine the real effects of the plan covered by these words.

So, for those reasons, as well as others, it seemed to us that our duty and the work before us was to retain, so far as we could, that far-sightedness, that efficiency, and that business ability which had made the railway system of the United States the greatest system with the lowest rates and the best system to serve the people that the world has ever seen.

Now, in its structure, the bill which has passed the House of Representatives takes up three phases of the matter. First, the actual return of the roads; second, the necessary period for reestablishment of personnel and ordinary operation of the roads under their owners, and, third, the question of their continued operation.

In the beginning, the Committee felt bound to take into account the reasons why this problem exists. They could not take up the problem as if the roads were in the hands of the government by negotiation or through the will of their owners. They had to consider the problem as it exists, which is, that the roads were taken over without the consent of their owners, by operation of law.

During the period of operation by the government many hundreds of millions of debts were incurred by the government on

behalf of the roads, without the consent of the owners, without their advice and at war prices. Now, this, it seemed to the Committee, and I think it would seem to any fair man, makes a very strong equitable claim against the government on behalf of the roads, and practically forces the government, during this period of reconstruction, at least, and to the extent that the debts were incurred during war service, to act as banker for the roads. That involves, of course, funding in some form the debts which the roads will owe to the government on settlement and the bill provides (without troubling you with too much detail and too many figures) that the debts on account of capital expenditures shall be repaid in fifteen years, payments to begin in five years. I may say, in passing, that this particular clause was the object of a great deal of controversy in the House and the bill as finally amended into its present form is not in this respect, as many think, and I am one of them, quite so generous to the roads as it should be. And, when I say generous to the roads, I mean in the interest of the proper solution of the whole question.

It may be proper for me at this point to make a comparison with the Senate committee bill whose refunding provision is more generous to the roads than the provision which the House passed. Therefore in the bill which finally passes the Senate and comes to conference, there may be a favorable modification. Of course that is in the future and I cannot tell. The other debts of the roads are to be paid to the government in demand notes secured by such collateral as may be available. Then there is a provision that if, owing to their needs or the conditions of the money market during two years after the roads are returned, they find themselves short of funds, there is created a revolving fund of two hundred and fifty million dollars, from which the President in his discretion and under proper safeguards may make loans to the roads. And finally, to give the roads time to turn about, and to recover their organizations and go on their normal way, the guarantee of the standard return is continued for six months after the roads are taken over.

That takes care of the transition period, it is hoped. Then comes the question of continued operation; and while I do not pretend to know the Senate Bill as intimately as I do the House Bill, at this point the two bills separate widely. It was strongly urged before the Senate and before the House that a Transportation Board be created which should be a body apart from the

Interstate Commerce Commission, and which should take certain of the executive duties of the Commission, but apart from that and more important than that, this Board was to take a broad view of the transportation needs and the transportation facilities and service of the United States without regard to particular roads, and to consider what was to the interest of the United States by way of proper transportation facilities. The Board also was to consider what operating revenues were necessary adequately to support such service. It was to make certain recommendations to Congress and to the Interstate Commerce Commission and the Commission was to make rates based on facts and recommendations which were to be put before them by this Transportation Board.

That is substantially in the Senate Bill, but the House of Representatives, and its Committee, has been and is averse to adding to the great number of Boards and Committees now in Washington transacting the business of the United States. A board created by Congress differs from almost everything else created by man. You all know that most human creations contain within themselves the forces of decay and the great difficulty is to keep them alive, but when you create a board in Washington it seems to contain the seed of eternal life and growth, and the difficult thing is to kill it. So we thought that we would rather stick to the evils that we know about than to create others that we knew not of. Our effort was to increase the powers and perfect the means of operation of the Interstate Commerce Commission. We tried to profit by the knowledge and experience which have come during the war from unified control, so we have given to the Commission enlarged powers by way of unifying terminal facilities and the use of rolling stock, etc., so that the greatest benefit can be had from facilities which now exist. We have gone quite far; if you had been in the House and heard the oratory of the representatives of some states you would have thought we had gone too far, in extending the powers of the Interstate Commerce Commission over all rates, both state and interstate. Those of you who are lawyers know the Shreveport case. We have put that case into statute law and extended it, I think the lawyers believe, somewhat beyond the Supreme Court decision. If I can put my hand upon it I will read a portion of the act. I do not want to take too much of your time, but the matter is important. Great difficulty, confusion and loss has been

experienced by railroads because state commissions made rates for intrastate business far below interstate rates. The low state rates caused loss to the roads and threw an undue burden on interstate business. It is now provided that if any road thinks it is discriminated against by a state commission, it can bring a complaint before a joint session of the Interstate Commission and the State Commission involved and then the act goes on as follows:

"The Commission shall have authority, after full hearing, to make such findings and orders as may in its judgment tend to remove any undue advantage, preference, or prejudice as between persons or localities in intrastate commerce on the one hand and interstate or foreign commerce on the other hand, or any undue burden upon interstate or foreign commerce, which is hereby forbidden and declared to be unlawful, and such findings or orders shall be observed while in effect by the carriers parties to such proceeding affected thereby, *the law of any State or the decision or order of any State authority to the contrary notwithstanding.*"

That paragraph will commend itself to the lawyers present, I think, as a very beneficial part of the act and one which is very far reaching. Another provision of our act which I think good, is this, that after these rates are established by law as fair and reasonable, every road can make all the money and all the profit it can out of these legal rates, and what is better, keep it after it has made it. It was urged by a large and influential body of gentlemen, and very ably argued that rates should be established to produce a definite percentage of return on the value of the property used in transportation. Our Committee felt, and the House acted upon its recommendation that if that were done, it would go far toward removing incentive and toward removing initiative, efficiency and the necessity of economy. Then we thought further that if after a road by good management had made a certain percentage of profit, it would certainly not be any incentive to further effort to take away from it the extra profit it might earn by economy and good judgment and foresight.

However much the act which we framed may be criticized in some of its details, it has these broad features, that it gives the Interstate Commerce Commission power to control the roads, it gives the Commission power and modifies to that extent the anti-trust laws, to permit combinations and pooling so that the entire

system of railroads in this country can be treated as a whole and used as a whole for the benefit of the commerce of the whole country. In addition to that, it does not destroy competition of service, it does not take from a carrier the earnings which it can get from good service, economy and efficiency and from wise foresight in making extensions or combinations.

I have left to the last a subject which is perhaps the most difficult of all, and that is the question of labor on the railroads. The provision which is in the bill that passed was put in as an amendment. The provision which the Committee reported to the House was not one which, in the current phrase, had "teeth." It was really a mild form of compulsory arbitration. But that was defeated, and the present clause put into the bill. That was done in the haste of debate, under what is called in the House, the five-minute rule, so that extended debate and examination were hardly possible. I cannot help feeling that if the provision which is in the bill could have been debated and could have been understood, it would hardly have been passed. This bill on its face would look like a bill for conciliation and arbitration, but if it is examined critically, it will be found that if disputes which arise are not settled by certain boards created by the bill,—if it comes to a point where the men cannot agree with the carriers,—that the only way to get that dispute before the final board of appeals created by the bill is by the consent of the officers of the brotherhoods. In other words, it is compulsory arbitration if the brotherhoods want it, and is nothing if they do not want it. There is no possible way for the roads to get any of the disputes before these boards without the consent of the brotherhoods. That is one thing that seems to me to be one-sided.

There is another section of the bill which provides that the wage rates and other arrangements which have been made under the stress of war shall remain at their present level until the employees will agree that they may be lowered. That, you see, is introducing into this Bill the worst feature of the Adamson Act, only raised to the *nth* power. I cannot believe that even the men themselves when they come to understand this will feel that that is a fair arrangement. It seems to me before this bill becomes a law that those parts of it at least must be examined carefully and modified to the extent of making them equally fair to both sides.

I think perhaps that what I have said indicates what

you all knew before I said it—that this railway question is one of the most difficult and intricate questions which has ever come up for settlement in this country. I doubt if anyone who has not sat for months in a committee room listening to representatives of carriers and shippers and representatives of the employees, all the way from Maine to Texas, and from New York to Alaska, can appreciate how complex and how far reaching these questions are. I doubt if any other question can more truly be said to touch every man and woman in this country. What we were impressed with, and most agreeably impressed with during all the hearings was the broad spirit which was shown by all representatives of all interests before the Committee. They all appreciated that the problem was not local, was not confined to them or to their interest, but it had to do with the erecting in this country of a great transportation machine, and you know, and they know, that in order to make that machine an efficient machine, it must be supported. Without sufficient rates to make reparation for wear and tear and to create a credit basis for extensions and new roads to meet the growth of this country, the machine will be overloaded and break down. Therefore the influence of this great Academy and of all thinking people must be exerted to the end that the country will view the question in a broad way. And you must see to it that men in Congress and elsewhere are impressed with the importance, not of criticising what has been done in the past, not of trying to make this generation suffer for the sins of the past generation, but of considering facts as they are and doing all we can to help this great transportation system, because if that is prosperous, the whole country will and must be prosperous.

I can truly say to you that the Interstate Commerce Committee of the House and I believe the House itself, approached this question in that spirit and the result of its efforts, I think, is a contribution to the solution of the question.

THE LEGISLATIVE PROGRAM OF THE INTERSTATE COMMERCE COMMISSION

BALTHASAR H. MEYER
Interstate Commerce Commissioner

BEFORE outlining what has been called the legislative program of the Interstate Commerce Commission I wish to offer two preliminary observations.

First, to speak of a legislative program of the Interstate Commerce Commission is to use figurative language. We are not a legislative body. We do not legislate. We therefore have no legislative program in the accepted sense of the term. We are an arm of Congress. We are responsible directly and solely to it. It is not our function to prescribe public policy but rather to conform our actions to the public policy prescribed by Congress. To the extent that we exercise administrative discretion within the limits of the act to regulate commerce, that discretion is exercised in the direction of what we construe to be the intention of Congress. However, we are required from time to time to make recommendations to Congress. Section 21 of the act to regulate commerce reads, in part, as follows:

* * The Commission shall, on or before the first day of December in each year, make a report, which shall be transmitted to Congress, * * * This report shall contain such information and data collected by the Commission as may be considered of value in the determination of questions connected with the regulation of commerce, together with such recommendations as to additional legislation relating thereto as the Commission may deem necessary. * * *

In addition to recommendations made in our annual reports we have occasionally sent special reports to Congress making recommendations on particular subjects. The most noteworthy of these were the reports submitted in December, 1917 and 1918, respectively.

In common doubtless with others, I have been asked many times to suggest a "permanent solution of the railroad problem." I have invariably expressed my inability to do so. I do not believe any man can offer a permanent solution of the railroad problem. There is no such thing as a permanent solution. The problem is permanent, not the solution. This is the second preliminary observation that I wish to offer.

The railway itself as we now know it may not prove to be as permanent an institution as we are accustomed to think it to be. Even though time should demonstrate it to be such, it does not follow that legislation governing the use of the railroad and prescribing relations between owners and users and workers can be permanent. Perhaps no lesson in history has been more forcefully and repeatedly brought home to every thinking man than the changing character of our institutions. One of the highest functions of the legislator and the administrator is to adapt these institutions to the conditions of time, place and circumstance. Having accomplished this adaptation, all has been done that can be done. This applies to railways and the railway program as much as it applies to taxation, education, suffrage, police regulations and all other matters governing or affecting the conduct and well-being of citizens. A legislative program for railways which is the best that competent men can elaborate for to-day is not necessarily the best to be applied five or ten years from now when conditions may be different. Scarcely a session of Congress or of a state legislature passes but what some statute relating to railways is enacted because new conditions require new laws. Congress has found it necessary to conduct extensive hearings and undertake fundamental changes in laws relating to railways about every 10 years or oftener ever since the conduct of railways has become a national problem. Naturally legislators look to the future and attempt to adjust legislation to future requirements as fully as possible; but generally it is impossible to foresee requirements and contingencies five or ten years hence. I speak at some length of this for the reason that it can help no one to labor under the delusion that any man or body of men can work out a real, permanent solution.

The statutory structure must constantly be readjusted to the social and economic structure. Laws generally follow, not precede, economic and social changes. They should follow changes as closely as possible. Some times they follow with painful slowness so that by the time they are finally written upon the books the changes which they were designed to meet have been superseded by other changes which they cannot meet and which themselves require still further changes. From this point of view the best "permanent" solution is that which is most adaptable to changing conditions. I am here referring to legislation relating to the general conduct of the railways. When we contemplate

questions of rates and service we see that which is ever changing and ever present. No matter what legislative and administrative changes are made, questions of rates and service remain. In general and in principle they are always the same. Whether Congress adopts the Cummins plan, the Esch plan, the Lenroot plan, the Plumb plan, the Railway Executives' plan, the Warfield plan, the Chamber of Commerce plan, or any other plan or combination of plans, problems of rates and service will demand consideration on their merits and in their varied aspects of changing industrial and social conditions and interests.

Coming now concretely to the legislative program of the Interstate Commerce Commission I wish to cite briefly from our annual report to Congress in December, 1918:

While we do not deem the present conditions and moment opportune in which to recommend concrete proposals for legislation, we may indicate certain lines of inquiry which must be pursued in order to reach sound conclusions.

Whatever line of policy is determined upon, the fundamental aim or purpose should be to secure transportation systems that will be adequate for the nation's needs even in time of national stress or peril and that will furnish to the public safe, adequate, and efficient transportation at the lowest cost consistent with that service. To this end there should be provision for (1) the prompt merger without friction of all the carriers' lines, facilities, and organizations into a continental and unified system in time of stress or emergency; (2) merger within proper limits of the carriers' lines and facilities in such part and to such extent as may be necessary in the general public interest to meet the reasonable demands of our domestic and foreign commerce; (3) limitation of railway construction to the necessities and convenience of the government and of the public, and assuring construction to the point of these limitations; and (4) development and encouragement of inland waterways and coordination of rail and water transportation systems.

This statement was followed by an enumeration of various plans which we thought might be brought to the attention of Congress. Next we described considerations which required attention if the policy of private control and operation or public ownership and operation, respectively, were to be adopted.

Not long after our annual report had been submitted to Congress we were asked by the Committee on Interstate Commerce of the United States Senate to submit "available data and other information bearing on the railroad situation in the country." Responsive to this request we submitted a statement outlining our views in more detail than had been done in the annual report. These views were predicated upon the continuance of private ownership and operation under regulation, and were approved by every member of the Commission as it was then constituted except one. The statement was framed upon the outline in our

annual report relating to private ownership, for by this time we had decided to favor that alternative. Its contents are indicated as follows:

If the policy of private ownership and operation under regulation is continued, the following subjects will require legislative consideration: (1) Revision of limitations upon united or cooperative activities among common carriers by rail or by water; (2) emancipation of railway operation from financial dictation; (3) regulation of issues of securities; (4) establishment of a relationship between Federal and state authority which will eliminate the twilight zone of jurisdiction and under which a harmonious rate structure and adequate service can be secured, state and interstate; (5) restrictions governing the treatment of competitive as compared with noncompetitive traffic; (6) the most efficient utilization of equipment and provision for distributing the burden of furnishing equipment on an equitable basis among the respective carriers; (7) a more liberal use of terminal facilities in the interest of free movement of commerce; and (8) limitations within which common carrier facilities and services may be furnished by shippers or receivers of freight.

Some time after we had received the request from the Senate Committee, a similar request was made by the Committee on Interstate and Foreign Commerce of the House of Representatives. We met these requests as fully as possible. In addition to the formal statement we submitted statistical data and other information, supplemented by extensive oral testimony most ably presented by our senior colleague, Commissioner Clark.

The above in brief is what has been called the legislative program of the Interstate Commerce Commission. As previously stated, a number of other plans have been brought to the attention of both houses of Congress. It is not for me to say what Congress ought to do. Both the Senate and the House committees have worked strenuously for many months. They have heard what we have had to say respecting our suggestions and what others have had to say about their respective plans. Both committees have reported bills to their respective houses. The decision now rests with Congress. It will do what it conceives to be in the best interests of the whole country.

I now wish to offer some observations with respect to the legislative recommendations stated above within the time limits imposed by your program. Fortunately others will deal with various important related subjects which I cannot even mention.

First of all, our recommendations are based upon experience and past development. They have grown out of that which has been, and therefore have their roots in the past. To illustrate, from the beginning of railway history, individual lines have been extended through construction, purchase or lease into systems;

and through a continuing process of construction and consolidation great systems have been developed. We favor a continuance of that character of development within the limits and under the guidance of the statute, whereas in the past that development has taken place largely outside of the law.

We have not deemed it necessary to work out special regulatory provisions relating to the so-called poor or weak roads as contrasted with the so-called strong or affluent roads. Railroads have in the past earned varying rates of profit. We see no reason why they should not continue to do so in the future. In view of well understood imperfections in the investment in property accounts of carriers it has been generally impossible to know just what different carriers' earnings have been on the real investment. When the necessary facts are available I expect they will show that in some, if not in many, cases the so-called weak road is actually making more money on such business as it does than many of the strong or supposedly affluent roads. This feature of the railroad situation has been practically ignored.

Our recommendations do not lead to a hybrid system of railroads in the United States. There will result from them no such linking of private and public finance and accounts that it will be difficult to know what is public and what is private and what the true results of operation may be from the standpoint of both public and private interest. Personally, I have a strong aversion toward all plans that propose to weave together public and private interests in such a way that a clear-cut accounting representing either is practically impossible. Rather than accept some of these plans I should deem it the part of wisdom to enter upon government ownership and operation outright. I do not believe the time has come for this country to enter upon public ownership of railroads. I believe that what we have recommended will meet the present situation much more effectively and with less danger of failure than government ownership. However, if the country should be driven into government ownership it will undertake it with courage and vision and make it a success. It can be done. I do not wish to see it forced upon the country at this time.

Our recommendations do not assume to be a panacea for all the difficulties in the world of transportation. It is a practical program which rests upon experience and observation. I am well aware that various apparently simple plans have their sup-

porters. If a simple plan will accomplish that which is sought, it is preferable to a plan less simple. That requires no argument. However, I do not believe that any one who will analyze objectively the entire transportation situation in this country to-day will find a state of affairs that lends itself to treatment under a simple uniform rule. This great country is full of mountains and valleys and plains, rivers and lakes, big cities and little cities, energetic people pursuing many different paths which cross and recross one another in an infinite variety of ways. Such a country cannot be placed under the yoke of a simple formula such as would conceivably be possible if the entire continent were to be emptied of its houses and their occupants and the entire history of this nation reconstructed by settling the continent anew under the guidance of such a simple rule, and in those parts of the continent where the railroad under such a rule would permit them to go. Our cities are where they are. It is an inhuman policy that would through the agency of transportation wipe some of them out as completely as if an earthquake were to swallow them. Our railroads are where they are. Excepting those, few in number, that ought possibly to be scrapped, operating arrangements and rates should be such that they can continue to serve their respective communities with increasing efficiency.

We have not asked to be relieved of so-called "prosecutor" functions of the Commission. We have been criticised with great persistence for performing the functions both of the prosecutor and the judge. This is a purely captious and theoretical criticism. Any one at all familiar with the conduct of our work will realize how impossible it is as a practical matter to have these so-called prosecuting functions influence the members of the Commission in arriving at a judgment in rate questions. The records of the courts will show that not only have railroad officials and employees been indicted, fined and imprisoned as a result of investigations made by us, but shippers have been indicted, fined and imprisoned because of matters brought to the attention of the respective courts by our agents assisting United States attorneys. During certain periods, the number of shippers thus punished has been greater than the number of railroad officials similarly punished, yet I have never heard any one complain that the Commission could not be fair to shippers because it is instrumental in prosecuting shippers for defrauding the railroads. If Congress should deem it wise to take from us these alleged prosecut-

ing functions and place them elsewhere, well and good; but such a transfer of function can have no possible effect on the performance of our official duties especially in rate matters.

One of the most important subjects regarding which we have recently made recommendations, following similar recommendations for many years before, is the regulation of the issuance of securities. A temporary commission, known as the Railroad Securities Commission, made a report upon this subject in 1911. That report proposed a plan of regulation which centered about effective publicity based upon active administrative supervision. I was a member of the Securities Commission and joined in its report and recommendations. Our recommendations to Congress differ from those made by the Securities Commission, and it is pertinent to ask how I can consistently join my associates in the present program. The answer is simple. The conditions of time, place and circumstance, to repeat an expression used earlier in this paper, were different in 1911 from what they are in 1919. One of the main reasons for opposing in 1911 the kind of administrative control of the issuance of securities which we now advocate was the lack of proper information as a basis for action. The field work of inventorying the properties of carriers and of compiling their financial histories and accounts has been practically completed. Although much remains to be done in valuation, what has already been done alone justifies a different legislative program respecting the issuance of securities to-day from what would have been wise ten years ago, I am, therefore, heartily in favor of this feature of our program even though it differs from that which I favored nearly ten years ago.

If there are any who have doubts regarding the necessity for regulating securities I call their attention to a single feature showing that not everything which has been undesirable in connection with securities has been discontinued. About ten years ago a certain important railroad was planning extensive new construction and the acquisition and reconstruction of other properties. These plans have more recently been completed. In that connection the general counsel of the carrier in question addressed its president in a long and carefully framed letter from which I quote only a few sentences:

The amount of consideration to be paid for these lands is in our hands to fix within reasonable limits. * * * Of course, the value of the stock and bonds in this connection means market value, but because our companies will own the stock, at least, if not the bonds, the par

value is very apt to be taken as the actual market value. * * * A full capitalization of the entire legitimate cost of the road is to some extent a protection to our large earnings. * * * Therefore, the capitalization should be fixed at a sum large enough to eat up in interest and dividends, at a reasonable rate of interest and dividends, the probable earnings of the company. * * *

The regulation of the issuance of securities is in itself a large and important task. It has, therefore, been proposed to increase the present membership of the Commission by two. This leads me to make a few observations regarding the size of the Commission. In 1917 the membership was increased from 7 to 9. The same act which increased our numbers also provided for power to act through subdivisions. We organized three subdivisions composed of three members each and designated as Division 1, Division 2 and Division 3, respectively. More recently we organized one additional division known as Division 4, composed of five members, made up of members who also serve on other Divisions. The less important cases are heard and disposed of by Divisions of the Commission, whereas formerly the entire Commission was required to sit in argument and in conference on all cases. Many of the important cases and all applications for and proceedings upon rehearing are still being heard by the full Commission. Only these cases, together with all important questions not directly connected with cases which come before the Commission, are given consideration in conference of the full Commission. This has afforded us substantial relief. While every month there are cases to be heard by the entire Commission, ten for instance, during the present month, there are many days on which only three members of the Commission are required to sit, leaving the other members free for other duties. During the year immediately preceding the creation of subdivisions, we sat in conference and argument for about 220 days. Subdivision has facilitated the conduct of all business which can be disposed of by a Division. On the other hand, the increase in numbers from 7 to 9 has retarded the conduct of some business which requires the consideration of the full Commission. An exchange of views among 9 men and arriving at a decision takes more time than in the case of 7 men. It is now proposed to add two additional members. This further enlargement is necessary because undoubtedly a new subdivision must be created to deal with the question of securities, although fundamental matters will doubtless receive the consideration of the entire enlarged Commission, at least during the formative period.

Suggestions have been made for a commission of from 15 to 25 or 30 members. Such a commission is an impossibility. It could not be a commission in the sense in which a body of five or seven men is a commission. It would be a convention of men. Three men are sufficient to dispose of the less important matters and matters which merely follow previous decisions of a larger body. Five men generally afford all the points of view and deliberative judgment which important questions require. Seven men certainly furnish it; and seven is to my mind the maximum number of commissioners who, acting as a whole, can constitute an efficient administrative and regulatory body. One of the problems of the future relating to our internal organization therefore is the problem of reducing the number of things which the entire Commission of 11 or more members must consider sitting as a body, and increasing the volume of business which may be handled by a subdivision.

I cannot refrain from referring to one element of regulation as it unfolds itself in the future, which is entirely new. Two years of Federal control have initiated into the public service a great body of men who theretofore had been accustomed to take only the point of view of private officials of private companies. With their peculiar experiences and traditions behind them, these men assumed the duties and responsibilities of public officials with the advent of Federal control. They have been compelled to consider not only the private company standpoint but also the public point of view. They have been obliged to act as judges between conflicting public and private interests. They have come to appreciate the position of a disinterested party in controversies affecting such conflicting interests. When these men return to private employment with their respective companies they will be different men from what they were before Federal control. Their recent experiences and observations should make them much more efficient in handling the public aspect of their companies' business and without sacrificing legitimate private interests they will contribute a point of view and lend a support to the work of the Interstate Commerce Commission which would have been impossible otherwise.

Finally I cannot refrain from interjecting a thought which although somewhat foreign to the title of this discussion, is nevertheless most intimately connected with the institution with which we are dealing. I have previously indicated that our

program is bottomed upon the past; that it represents growth; and that in a word it is evolutionary and not revolutionary. Up to very recent times the word revolution has been a part of the vocabulary of American citizens only in describing events of 1776 and what is associated with that date. Unfortunately this word has now obtruded itself upon us, not with the thrilling thoughts and visions of 1776, but we have been compelled to associate it with sinister things that threaten to undo much of what was accomplished in 1776. It is impossible to discuss at this time what these words suggest. As a citizen, however, I wish to be permitted to express the view that while there are many things that should be changed, while there are many wrongs to be righted, any man who in these United States of America to-day talks or thinks revolution is a traitor to our country and an enemy of mankind.

[557]

THE RELATIONS OF SHIPPER AND CARRIER

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THE problem of railroad regulation and rehabilitation possesses this characteristic—not unusual in problems of an economic character—that from whatever angle one approaches it, one is drawn inevitably into the discussion of its every phase. So closely associated and interdependent are all the interests involved that it is almost impossible to consider one phase without taking into account all the others. The railroad problem from the standpoint of the shipper is in the last analysis, the same problem from the standpoint of the public, and hence what I shall say this morning may appear to wander somewhat widely from the specific topic set for discussion. I take it that the general topic has in mind problems of service and of rates as applied to the mass of commodities transported for the public. It is the problem of freight service. What I propose to do as an opening for the morning's discussion is to state what in my judgment are the outstanding considerations in the relation of the shipping public to the transportation agencies.

In any attempt to solve the present railroad problem, we shall have to take account, among other factors, of two more or less conflicting interests that must be protected and harmonized,—private capital that owns the machine and is assuming responsibility for its operation, and the shippers who are using this machine for the transportation of their freight. What may each require of the other? I am assuming that one of these two interests will be the private railroad corporations rather than the government, because I have been able to discover little evidence of a desire in this country at present for railroad nationalization. Notwithstanding the very evident growth of liberalism and even of radicalism in this country, the activity of socialistic writers and speakers, the intensive campaign of the railroad brotherhoods, there is scarcely a remote possibility that Congress, representing the people, will give a moment's serious consideration at the present time to government ownership and operation. The question of government versus private ownership and operation is

not one of principle, but one of expediency merely. The public should entrust the performance of its transportation service to that agency, whether public or private, that will best perform it. And it is because so large a proportion of the public to-day believes that private capital can give this service more efficiently than can the government, that the agitation for government ownership has made so little headway. I think we may safely proceed in our discussion upon the assumption that private capital is to be given another opportunity to show what it can do to furnish this country with efficient transportation.

Looking at the question, then, first from the standpoint of the shipper, what may he reasonably require of the railroad transportation system,—not of an individual railroad company, for that is not my point of view, but of the aggregate of railroad corporations that stand prepared to handle his freight? What the shipper requires may all be summed up in the one word *service*. Frequently this demand is embodied in the words, efficient service at reasonable rates, but I have intentionally omitted this latter requirement because I question whether by and large the shippers are seriously concerned as to whether the rate structure as a whole is high or low. There was a time earlier in our history when our transportation facilities were not as generous or as flexible as they are now, and when discriminations between large and small shippers were more common. In those days, the shipper felt more directly the burden of the rate, and found it more difficult, if not altogether impossible, to shift it to other shoulders. To-day I venture the generalization that in the large proportion of instances, the burden of the rate is passed on to the consumer, and disappears in price, where it is lost from view forever. What we are more apt to hear to-day, especially from organized bodies of shippers, is the argument for adequate rates. This demand, which has become more articulate during the last few years, is based partly upon a realization by the shippers that this is the only way to get the service they require, and partly upon a consciousness that this adequacy, when obtained, will not seriously deplete their own pocket-books. Where the shippers' interest in rates does appear is in such matters as the equalization of burden upon different commodities, and the equalization of market opportunities for different producing sections and manufacturing centers,—in other words, in the relativity of rates.

If service is the one thing the shipper requires, let us attempt

to analyze it into its most important elements. The first and immediate need, which in a way comprehends all the others, is for a greater unification of the facilities of transportation on the one hand, and on the other hand, a greater unity in the agencies that regulate the operation of these facilities and the charges imposed. Such unification is necessary in order that the rate structure may be simplified and standardized, and the inequalities and the injustices eliminated, that spring from the mass of tariffs filed by hundreds of railroad corporations and passed upon by over two score of regulating commissions. That great progress has been made toward fairer relations, no one can deny who has followed the history of regulation in this country for the past two decades, but the problem is far from having reached the stage of complete solution. The conflict of state and federal jurisdiction in the matter of rates is a serious hindrance to the accomplishment of the desired end. My own feeling is that exclusive jurisdiction in rate matters should be entrusted to the federal commission. We have had sufficient illustration of the ability of the state commissions, when they wish, to throw an interstate schedule completely out of line. Such action on their part may be of immediate advantage to a local industry or two, but for the body of shippers of the country as a whole, such a policy is unfair and burdensome. Leaving the regulation of intra-state rates exclusively to state commissions does not solve the problem for there are few such rates that do not in these days have their interstate implications. Conferences between state and federal commissions may act as a palliative, but such conferences are not likely to take place until the trouble has reached an acute stage. Efficiency in service demands a smooth running machine all the time, and this can only be attained through unified regulation in the hands of a central body.

Equitableness in rates requires again that not only shall regulation be centralized, but that the units of transportation shall be reduced in number, and thrown into larger systems. How many systems there shall be or of what their constituent elements shall consist, I do not here undertake to say, but would merely express the view that they should follow well-established lines of traffic and should be guided in their construction by commercial rather than geographical considerations. A regional grouping would have no economic justification. I do not care to enter here into the legal difficulties associated with the actual processes of con-

solidation, nor to discuss the relative desirability of voluntary and compulsory consolidation, beyond venturing the opinion that voluntary consolidation would not succeed, and that sooner or later compulsion would have to be resorted to if the end were to be attained. Such consolidations along commercial lines would result in eliminating as independent factors the so-called weak roads, by absorbing them into systems with their more prosperous competitors. There would thus be removed much of the economic waste of roundabout hauls, much of the instability in rate structures, much of the inequality in transportation charges as between different commodities and different lengths of haul. The principle of rate-making which declares that in an industry with a large fixed plant any earnings on traffic over and above the out-of-pocket expenses of the haul justify the rate, is sound if properly applied, but it has been carried so far in many instances that it has resulted in enormous waste, and the American public has paid in transportation charges for millions of miles of unnecessary and unjustifiable haulage. The shipping public has a right to demand that so far as it is humanly possible, this wastage should cease, and there is no better time to take the evil vigorously in hand than now, when the whole transportation problem is being studied with an earnestness and a sincerity never before displayed in our history. Consolidation should be effected in such manner as to create large systems covering well-defined traffic routes, and designed to handle the business of the country in the most direct manner, unobstructed by the selfish requirements of any individual railroad system. I do not personally think that competition should be eliminated. There may come a time when such competition will no longer be of importance; but with adequate oversight to prevent misuse of the competitive privilege, I see no reason why we cannot anticipate that competition between these consolidated systems will work to raise steadily the standard of service offered and thus accrue to the advantage of the public at large. The oversight to which I refer would consist in giving to the Federal Commission powers sufficient in addition to what it now possesses over rates and service, to ensure the most complete and most economical utilization possible of road, equipment and terminals without regard to private corporate ownership. Whatever has been accomplished during the period of unified government operation in the direction of joint use of terminals, direct routing, elimination of unneces-

sary switching, and the like should constitute a starting-point for a program of extensive amelioration. The very serious physical problem of joint terminals in the populous centers of the country should be tackled with the aid of the best engineering talent, and the pressure of public opinion should be brought to bear upon municipalities where such terminal problems exist, to seek an early solution. For the problem is in no sense a local one. The situation in St. Louis or Chicago or Kansas City is a vital one for every shipper and every consumer in the country.

Among the added powers that should be conferred upon the Federal Commission is the power to prescribe minimum rates. It is vital to the solution of the entire problem of relativity that a railroad corporation should be prevented from demoralizing the rate structure by a policy of rate reductions, which while temporarily bolstering up its own earnings and benefiting its local shippers, is causing the country at large an economic loss by throwing the burden on other traffic and by depriving routes better located of the opportunity of handling the business. Shippers have come to realize, if the general public has not, that specific rates may be too low as well as too high.

But more than this, in order that the shippers and the public may realize to the full the benefits of an adequate system of transportation, shippers should demand that greater utilization be made of our agencies of transportation other than rail,—particularly the facilities offered by our natural waterways. For the realization of this end, it is necessary that there be constructed such connections between water and rail systems and such facilities of transfer, as will remove existing obstructions. This policy should be urged wherever water carriage is economically justifiable. The public should not allow its waterways to remain idle unless it has satisfied itself by expert investigation that its best interests require an abandonment of water transportation and a concentration upon rail. Certainly it should not sit idly by and lose the use of its waterways merely because the physical connections with rail have not been perfected.

Turning to the other side of the question, what have the railroad corporations in their turn a right to require of the public? This can be stated in a sentence, although it would require far more time than I have at my disposal to discuss the statement in all its implications. Private capital invested in railroads has a right to require a return on its investment in the property devoted

to the public service that shall be sufficient (1) to cover costs of operation efficiently expended, together with taxes and other public obligations; (2) to cover the interest on obligations the proceeds of which have actually been invested in the property; (3) to cover a dividend upon an honest stock capitalization at a rate high enough to ensure that the capital needed for development can be obtained, which means not alone enough to pay the dividend in any one year, but in addition the accumulation of sufficient reserve to satisfy the public that its dividends will be continuous; and (4) to accumulate a surplus sufficient to keep its property up to the standard of service demanded by the public, such surplus to remain uncanceled.

Of course this statement opens up a wide field of controversy, involving questions as to the validity of the railroads' property accounts, the status of federal valuation and its usefulness when completed, the fundamental question as to what constitutes the value upon which the railroads are entitled to earn, the extent of existing capitalization, and the like. We can only hope that out of the arguments and disagreements of the experts, and the decisions of commissions and courts, some agreement may eventually emerge on fundamental conceptions of value and capitalization and rate of return that will supplant our present haphazard methods of rate determination. I cannot discuss these questions here, but can only say that there seems to me to be no insuperable obstacle to reaching a reasonable degree of approximation as to the value of the property upon which the railroads are entitled to earn, a value that can be adjusted and modified later in the light of more complete data and more thoroughly established principles. We must make a start sometime; most of our difficulties are due to the fact that we have dallied so long.

With the purpose of restoring railroad credit and of insuring to railroads an adequate return upon their investment, two proposals have been made, both of which offer strong claims for enactment into law. To insure an adequate return to capital invested in the industry, it is proposed that Congress should adopt a rule of rate-making as a guide to the Interstate Commerce Commission, the object of which being to make clear that the discretion of the Commission in making rates goes beyond a narrow consideration of the reasonableness of the specific rates under review, and embraces an examination and consideration of the general financial condition of the carrier, to the end that it may

be assured earnings adequate for the service needed by the public. Instead of being confined to the function of guardian of the shipper against the imposition of an unreasonable rate, the Commission is to become the protector and promoter of transportation service as a whole. It would clarify the powers of the Commission, remove all doubt as to the limits of its authority,—a doubt that has revealed itself more than once in divided counsels in the Commission itself—and greatly strengthen public confidence in the determination of the government to assure to railroads adequate earnings.

The other proposal, which aims directly to bolster up railroad credit, is that of a government guarantee of a minimum return upon railroad investment. This suggestion has usually been associated with one for the taking by the government of excess earnings over a certain maximum, to be used for the benefit of the transportation service as a whole. In this form, the proposal has met with determined opposition from railroad executives, first on the economic ground that all incentive to efficiency will thereby be removed, and second on the legal ground that such a commandeering of earnings resulting from rates declared reasonable by the Commission would be confiscatory and unconstitutional. Time does not permit me to enter upon the discussion of this question, which after all is only indirectly related to the topic of this morning. My own conviction is that a government guarantee will be found to be necessary if railroad credit is ever to be restored to a healthy status, and I see no reason why such a guarantee cannot be made sufficiently elastic to prevent the destruction of private initiative.

In conclusion, I would merely add that if adequate earnings are assured to the railroad corporations, the public has a right to expect that the transportation business of the country will be so conducted that the public interest will be the predominant influence in the determination of any question of policy, and will not be held to be merely coequal with that of the private capital employed. We have reached the point in our political and economic development where we are ready to demand that a public service be operated exclusively in the interest of the public, and private capital must be made to appreciate clearly that it is investing in this public business under this restriction. After two years of government operation, private operation is again to be

placed on trial. Nothing short of a whole-hearted acceptance of the principles of public service and their every-day application to railroad administration and operation will save this country from the doubtful experiment of government ownership.

[565]

OBJECTS OF RAILWAY LEGISLATION

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I HAD the privilege on November 17th in St. Louis at the American Mining Congress of hearing an address by the Editor of the *Railway Age*, Mr. Samuel O. Dunn, which contained some very extraordinary and very startling statistics. Mr. Dunn, covering the ten years ended 1915, showed what had been the growth of traffic, what had been the growth of facilities for handling the traffic. He undertook to estimate how far short the provision of facilities had been in comparison with the growth of traffic during those years, what had been the growth of traffic since, what might be reasonably expected to be the growth of traffic in the next three or four years, what it would cost to make up the arrearage of provision accumulated in the ten years ended 1915, and from now on to provide for facilities for new growth. Equating his figures with some view, both to the changed purchasing power of the dollar and also to the increased use of facilities per unit, larger use of cars, tracks, etc., and then, having made his computations in general, making a very generous deduction for possible error, he figured that in the next three years, at least six billions of dollars of new money must be found to make increase in facilities keep pace with the probable growth of traffic. He remarked that we are hearing on all sides a demand that production be increased. He said, "You cannot increase production in the United States, if you do not provide transportation facilities on an enormous scale with which to do that business."

He told the story about a man who had listened to these figures. The man said, "We will do this business by auto truck." Mr. Dunn said, "How will your manufacturers of auto trucks get their materials? How will you build the pikes on which the trucks are to run, if the railroads cannot carry the cement?"

We have had at this meeting two papers, coming from two distinctly different sources. First we had the voice of the economist, coming out of the still air of delightful studies, and, from his detached point of view, giving you his impressions of the

panorama. Dr. Dixon, I think I may say by way of condensation, let you see that somebody—he said the railways—must have “one more chance.” One more chance to do what? I think he left no question in your minds that he meant one more chance to serve the public adequately.

Whether this one more chance is to be one more chance for the regulators or one more chance for the railways, or for both, we may set aside for a moment, and compare that background from which Dr. Dixon speaks and from which his recommendations proceed, with the recommendations in the paper from Interstate Commerce Commissioner Meyer. I wonder if there was any one in the room who at any point in that discussion, admirable and competent as it was, could detect the slightest anxiety concerning whether facilities were to be adequate in the future. You noticed that, in the enumerated list of recommendations made by the Commission, there was something about adequacy of facilities; you heard no statement to the effect that facilities had been inadequate and, least of all, did you hear any acknowledgment that one factor in a restoration of railway development must be the government and its policy.

We have before us first a bill which was passed by the House of Representatives on November 17th and now goes into the hopper for conference. We have, second, a bill introduced on the 23rd of October by the full Senate Committee, which presumably will be in due course passed by the Senate and, in turn, join the House bill also in the hopper of conference. Do those bills have as their background an acknowledgment that provision of facilities in the past few years has been inadequate; that the main purpose now of legislation must be a resumption of railway development through a rehabilitation of railway credit, and that the government has a function in that matter? Are you prepared to approach the consideration of those measures from that point of view and test them by that yardstick? Do they do it or do they not?

The other night in the new Willard Hotel, returning from my day's labor at about 11:30 p. m., I found two friends of mine seated at a table in the dining room engaged in very violent discussion. I said, “What are you talking about?” They said, “We are talking about the railroad question.” I said, “What phase of it?” One of them said, “This man says there are thirty-seven plans, and I say there are only thirty-six.”

I happen to be the servant of an association which gives its entire time to this matter and which hasn't any plan; one, I think, of the very few associations which have no plan. I think even the indefatigable Mr. Waterman in his chart has been unable to detect that the Railway Business Association has a plan.

There is something more important than that, and it is that we have reached the stage now when numbers of associations and individuals who have felt inclined to support one or another of the plans or of the leading provisions in those plans, have come to see that the function now is to drop plans and try to see whether we cannot be sure that Congress in one way or another accomplishes the purpose that underlies some of the plans.

What does this House bill mean to do? A court, in considering what was intended to be done by a legislature, will always give very great weight to a provision introduced but rejected. If a legislative body refused to do a thing which was asked of it, the court will usually hold that the legislature did not mean to do that thing at least.

I ask you to hear two sentences which were contained in the bill as it came from the House Committee:

The Commission shall be charged with the duty and the responsibility of observing and keeping informed as to the transportation needs and the transportation facilities and service of the country and as to the operating revenues necessary to the adequacy and efficiency of such transportation facilities and service. In reaching its conclusions as to justness and reasonableness of any rate, fare, charge, classification, regulation, or practice, the Commission shall take into consideration the interests of the public, the shippers, the reasonable cost of maintenance and operation, including the wages of labor, materials, and taxes, and a fair return upon the value of the property used or held for the service of transportation.

The House cut those two sentences out. I have studied this bill from beginning to end. I can find no other place where the idea involved in those two sentences stands. The House of Representatives goes to conference without **having** said those things.

Your court also would consider debate; it would consider quotations from reports, in determining whether it was the purpose of the legislature to do a certain thing. Accompanying the report with which this bill was brought in, there was a statement prepared by Interstate Commerce Commissioner McChord, in which he said that there was a decline in railway credit but that the Interstate Commerce Commission was not in any way responsible for this, and the general tenor of that appendix to the Committee report was that, whoever might be to blame, there was no remiss-

ness on the part of the Government in its policy and no need for a change of policy.

In going back still farther, when Interstate Commerce Commissioner Clark, Chairman of the Legislative Committee of the Commission, appeared before the House Committee, he was asked by Chairman Esch whether he would think it advisable to include in the bill which, in its first draft was written by the Commission, that the Commission should take into consideration in the regulation of rates the cost of capital. To which Representative Clark replied he would have no objection to having that go in, because the Commission always had and always would consider the cost of capital, and its course would not be changed in the least if those words went in.

We have in the Senate bill two passages, both occurring on page thirteen of the draft I have in my hand. One is: "No carrier subject to the provisions of this act shall be authorized to receive and retain for the transportation services rendered such proportion of the rates and charges collected by it as may yield in the aggregate more than a reasonable return upon its property investment," a reasonable return, of course, being the return which the court will compel a Commission to permit, a return below which a Commission is forbidden to depress rates. "In changing or modifying rates," etc., "and in viewing them from the standpoint of their effect in producing revenue," etc., "the Commission shall initiate, modify or adjust rates," etc., "as nearly as may be so that the railway carriers as a whole allocated to each district and subject to this act shall earn an aggregate annual net operating income equal as nearly as may be to five and one-half per centum upon the aggregate value as determined," etc.

Here we have a provision which explicitly recognizes that a return must be made upon the securities. It is evident that the purpose here is a restoration of railway credit. Unfortunately, the phrase which I quoted first from this bill seems to negative that and, from other parts of the bill, there are other confusing conflicts as I read it. It may well be that in conference a clarification of these various provisions will result.

But what is behind this Senate Bill? What is in the debate; what is in the report that accompanies the bill? What we have there is the explicit acknowledgment by the full Senate Committee that, to quote as nearly as I can their language, the regulatory

system has failed in the past, because it has not recognized that one of the essential elements, one of the essential aims of government regulation of rates is to attract capital.

Now, I wish to submit to you in the two or three minutes which I hope I still have, a sentence or two which it seems to me Congress ought to embody in substance in any legislation it passes.

To supplement the present federal policy which by the terms of the law is wholly one of restriction, by enacting that rates shall be such as to yield revenue sufficient in the average year to provide necessary expenses and the credit basis so that the average railway may secure adequate improvements and extensions.

Some of those concerned will tell you the Commission will do that anyway. Well, then, what harm is there in saying that they are required to do so in the law? You cannot regulate investors. The investor will buy securities in accordance with his judgment as to whether the rate of return is more attractive to him than from an investment he can get somewhere else. If there is in these bills nowhere that declaration of policy that rates shall be adequate for that purpose, why not say it?

To require that the regulatory authorities from time to time investigate and estimate for a reasonable period in advance the transportation needs of the country and report to Congress or to the public their findings as to such needs and their estimate of the amount of revenue that will in the average year assure approximate accomplishment of such necessary development.

It is said that the Commission considers this, that, and the other. This recommendation is that it shall not only consider past performance, as has been done in connection with the large-scale cases for the last nine years—statistics of the past, in order to determine what shall be the revenue for the future; but, inasmuch as the individual companies must make their budget not for what has passed over the dam, but for the future, just so the Commission shall make a budget of the aggregate needs of the country in advance, and that it shall be in form, that it shall be a tabulation, that it shall be made public, that in a way the Commission signs the pledge that it will carry out these purposes which we say are necessary if the legislation is to succeed.

Carrying that still further in the point of detail, to prescribe that in estimating the net income required in order to attract capital in the amounts found by the regulatory authorities to be necessary, such authorities shall have the power and duty to ascertain and announce from time to time the rate of return which, under changing market money conditions, it is necessary to allow.

In other words, and this is all I have to say, if you put in that bill a rate, whatever the rate, which is prescribed as the rate of

return which is to be permitted, you also say that the Commission is authorized and required to permit not only that minimum rate, but such additional rate as may prove by experience and ascertainment necessary in order actually to attract capital for the improvements and extensions which the business of the country requires.

[571]

THE SCOPE AND FUNCTIONS OF A FEDERAL TRANSPORTATION BOARD

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SO far as I can recall the suggestion that there should be a Federal Transportation Board originated in a conversation with Mr. Harry A. Wheeler, at that time—and it was less than a year ago—President of the Chamber of Commerce of the United States. I think he said that he had been discussing this question with certain gentlemen in Chicago who had been greatly impressed by the usefulness of the Federal Reserve Board and felt that there should be established in the field of railroad transportation a board similar in character to that which had been so successful in the field of currency and banking.

There had been before Congress and before the country the proposition made by the railway executives that a Secretary of Transportation should be provided for, with a position in the President's cabinet, and that this Secretary of Transportation should have general charge of the executive or administrative regulation of railroads and should, among other things—and that was particularly desired by the railway executives—ascertain the financial needs of the carriers and report those needs to the Interstate Commerce Commission, which, by statute, should be required to establish rates that would meet the needs thus certified to the commission.

That suggestion of the railway executives met with no favor in Congress or with the public, and it had to be abandoned, but at the same time it was very clear that laws for the comprehensive regulation of the railroads in the future must be enacted, and that that regulation would necessarily require for its enforcement the exercise of extended executive functions. The question then came sharply before Congress and before the people, who were thinking about it, whether these new and difficult functions of administrative regulation of the railroads should be entrusted to the already largely over-worked Interstate Commerce Commission or should be entrusted to a new federal agency.

The bill that has passed the House is built upon the idea that it

is wiser to extend the functions of the Interstate Commerce Commission than to create a new board. The bill pending in the Senate, however, starts upon the assumption that it is desirable to provide for the executive regulation of railroads by the establishment of a Transportation Board and the whole bill is built upon that theory.

What ought to be done with this phase of regulating the railroads? I think I should stop just a moment to say that the success of the whole venture of regulation of the railroads must necessarily hinge largely upon the machinery that is provided to give effect to the laws that may be enacted.

When England began regulating railroads about the middle of the last century, dependence was placed upon the courts for the enforcement of the laws. Shippers were expected to resort to the courts to secure their rights under the statutes. Regulation made no headway in England, nor did it in this or other countries, until machinery for the enforcement of the regulatory laws was provided. The Interstate Commerce Commission was effective in this country for the purpose for which it was created, and anything that I may have to say in support of a Federal Transportation Board is said with no idea of criticizing the Interstate Commerce Commission.

Whether there should be a new board or not was considered in a statement which Mr. Wheeler made when he presented to the House Committee on Interstate and Foreign Commerce a program of legislation that had been adopted by the National Transportation Conference. Mr. Wheeler said, "It is believed that the Interstate Commerce Commission ought not to be burdened by the addition to the tasks it now performs of a large number of administrative duties. Should the commission as contemplated become the authority for the sole regulation of all railroad rates, rules and regulations affecting interstate commerce, its duties will necessarily be enlarged. To require the commission to exercise the administrative functions contemplated in the proposed plan of remedial railroad legislation, would be to the detriment of the public interest because it would seriously interfere with the prompt action of the commission as a body for the regulation of rates, the task for which it was especially created and for the performance of which it is peculiarly adapted."

It will be interesting to review just by title the additions to

the duties of the Interstate Commerce Commission which the bill passed by the House of Representatives proposes to make. The commission, of course, is to continue to regulate rates, not only as it has in the past, but in a larger way, because it is to determine rates on traffic within the states, for the most part, as well as rates on interstate traffic.

The new duties which it is proposed to give to the commission, as enumerated in the House Bill and as summarized by Mr. Richard Waterman in a comparative statement he has prepared for the Railroad Committee of the Chamber of Commerce, are as follows:

(1) To keep itself informed as to the transportation needs, facilities and services of the carriers.

(2) To authorize the unification, consolidation or merger of two or more carriers whenever the commission finds such consolidations to be in the public interest, and to authorize the pooling of traffic, earnings and facilities.

(3) To exercise jurisdiction over the use, control and supply, as well as the movement, distribution and interchange of locomotives and cars, and also the supply, movement and operation of trains.

(4) To prohibit the extension of present lines, or the construction or acquisition of new lines by any carrier until it has obtained from the commission a certificate of public necessity and convenience.

(5) To require the construction of docks and rail connections between rail and water carriers.

(6) To provide, when necessary, for the redistribution of traffic and for the joint use of terminals.

(7) To exercise exclusive jurisdiction over the issuance of securities by carriers.

(8) To order a carrier to install automatic train stops or train-control devices.

(9) To exercise other important regulatory powers belonging to the Federal Government.

I submit, without argument, that that is a rather large layout of additional duties. The service of about two years which I had the privilege of performing on one of the State commissions, and the knowledge which I gained there of the difficulty which a State commission has in keeping abreast with its work, convince me that a body of nine—or as it is proposed, eleven commission-

ers, constituting the Interstate Commerce Commission—could not successfully perform in addition to the duties of rate regulation this long list of executive tasks.

Now if a Transportation Board be created, what specific functions shall be given it? I will enumerate them briefly without much elaboration.

First, the Board should determine and announce the grouping or consolidation of railroads to be in the public interest. We are going to have in the near future, I hope—in the distant future certainly—a greatly reduced number of railroad systems. Consolidation is to come about. The House Bill provides for it by voluntary action of the carriers. The Senate Bill provides for it by voluntary action for a period of seven years and thereafter, if necessary, by the exercise of compulsion on the part of the Federal Government. That grouping and consolidation of railroads with the incidental tasks it imposes will involve a large amount of work on the part of any regulatory body.

Second, the Board should have the authority to require, if compulsion is found to be necessary, the railroad companies, as a precedent to the formation of railroad consolidations, to become Federal corporations either by organization of new companies under Federal charters or by changing from State to Federal corporations. A problem of compulsory incorporation of railroads with the shifting from State to Federal corporations is here in question.

Third, the Transportation Board should be given authority to pass upon the public necessity for the expenditures of capital, in excess of a minimum amount stipulated by statute, by all carriers engaged in interstate commerce. This power should be so exercised as to prevent unnecessary duplication of line or terminal railroad facilities and as gradually to bring about the unification of railroad terminals and to accomplish that degree of coördination of the rail, highway and water transportation facilities that may be found to be in the public interest. The unification of our railroad transportation system in the future can be brought about, to a large extent administratively by the authority that controls expenditures.

Fourth, the Board should administer whatever general railroad contingent fund the statute may authorize or require the carriers to accumulate. The Senate Bill, which was influenced largely by the program of legislation worked out by the National

Transportation Conference, provides for a company reserve fund to be built up by each railroad company and for a general contingent fund to be managed by the Transportation Board for the purpose of developing railroad and other transportation facilities.

Fifth, the Transportation Board should act as a referee in cases of disagreement resulting in a deadlock of any of the boards which it is proposed shall be entrusted with the adjustment of wages, hours of employment and other conditions of railroad labor. The scheme of adjustment of wages and working conditions by dual boards has been explained by Mr. Doak.¹ It is now in operation. When there is no longer a Director General of Railroads, some authority must be selected to settle deadlocks that may arise in any board.

Sixth, the program of legislation which the National Transportation Conference worked out, and which meets with my approval, and with the approval of every man I have talked with about it—provides that the Board of Directors of these federalized railroad corporations which are contemplated shall contain at least two representatives of the employees and two of the public. That is to carry out specifically the idea of trusteeship which the chairman emphasized in his opening remarks. I believe it will be very helpful to the railroads and of benefit to the public.

Seventh, the Transportation Board should be authorized and required to inquire into the practices of railroad management and to propose measures for preventing abuses therein. We have had within recent years a good many unfortunate examples of irresponsible management of railroads and we are not so far from that past history as to be certain that when we return to private ownership unjustifiable exploitation may not again be possible. I believe that abuses should be prevented by the searchlight of investigation and information.

Eighth, the general duty of a transportation board should be not only to bring about the healthy development of railroads, but the coordination of railroads with waterways and with highways in order that this country may have in the not distant future a well-rounded, coordinated national transportation system.

One other power has been recommended for this board and urged in certain quarters with a good deal of force, and that is

¹ See pp 178

that the new board should be responsible for the finances of the railroads in that it should determine what the financial needs of the carriers are and certify those needs to the Interstate Commerce Commission.

My own view of that matter has always been, from the time it was first brought to my consideration, that it would be unwise to take away from the Interstate Commerce Commission any of its responsibility for the maintenance of revenues adequate for the carriers. The Commission is the authority that passes upon the rates. It should feel the responsibility of determining what the revenue needs of the carriers are and of providing the rates therefor. If some other authority, outside of the Commission, is responsible for determining the revenue needs of the carriers, the Commission will perhaps not act with that degree of responsibility that it ought to feel; and then also, it is quite possible that this division of authority and responsibility between the two boards might develop undesirable friction between the two authorities.

Lastly, what kind of a board should this be? Not a large board—five members are better than more because its purposes are to be executive. One objection—and it is a strong objection—to investing executive functions with the Interstate Commerce Commission, is that it is too large a body for effective administrative or executive work. While I would not take away from the commission the limited executive functions it now exercises—because most of them are related to rate-making and those that are not related to rate-making are not difficult to administer—I do not think it would be wise to vest executive functions in a body of nine or eleven men. Boards at best are apt to be long, narrow and wooden, and while the Interstate Commerce Commission is by no means wooden, nor has it been narrow, it is long, and its processes would be slow.

What is needed is quick, intelligent, effective executive action on the part of a board with a maximum responsibility for the development of a national transportation system.

THE HOUSE AND SENATE RAILROAD BILLS

RICHARD WATERMAN,

Secretary Railroad Committee Chamber of Commerce of the United States

WHEN Dr. Lindsay asked me to present at this meeting a summary of the railroad legislation that is now before Congress and to compare the two bills, I asked for leave to print. That is what they usually do in Washington. So I have prepared a printed chart showing in parallel columns the important provisions of the Senate and House bills and have asked your chairman to hand a copy to each member of the Academy who attends this meeting.*

Before discussing the pending bills I am going to refer briefly to some of the steps that have been taken by the House and Senate Committees in preparing them. Each of these committees has held public hearings lasting for many months. At these hearings thirty or forty different plans for railroad legislation have been laid before the committees and later printed in full in the reports of the hearings. Examination of this testimony shows that almost every witness who came before the committees emphasized in one way or another four essential features of the railroad problem which may be stated as follows:

1. If the country is to grow, the railroads must grow.
2. Growing railroads require a constant stream of new capital.
3. This capital can only be attracted on the basis of good earnings.
4. Good earnings, of course, mean adequate rates.

When the time came to introduce legislative measures for the consideration of Congress, seven bills were drafted, of which two were read into the committee record, and five were actually introduced and referred to the Interstate Commerce Committees. These two committees, after considering all of the plans and all of the bills, reported out two separate bills that differ in many important particulars. In my chart I have compared the bills point by point. Dr. Lindsay asked me to read the comparison into the record, but as you have it in hand, I am simply going to read a brief summary of the comparison.

* Reproductions of Mr. Waterman's Charts appear on pp. 75a-75b and 105a-105b.—Ed.

The Esch bill, H. R. 10453, was passed by the House of Representatives November 17, and at once sent to the Senate. The Cummins bill, S. 3288, was reported to the Senate October 22 by the Committee on Interstate Commerce and will probably be taken up for consideration at the opening of the regular session of Congress December 1. An examination of the chart shows that while the two bills have many points in common, there are certain very important respects in which they differ.

Ownership and Operation

Both bills provide for the return of all railroads and transportation systems to corporate ownership and operation on the last day of the month in which the act is approved.

Consolidation and Competition

The Senate bill provides for the consolidation of all railroad properties in accordance with a plan to be promulgated by the proposed Transportation Board and approved by the Interstate Commerce Commission, into twenty to thirty-five separate competing systems, each owned and operated by a distinct federal corporation—consolidation to be voluntary if accomplished within seven years, and thereafter to be compulsory.

The House bill provides for the consolidation of any two or more carriers and for the pooling of their traffic, earnings and facilities to whatever extent the Interstate Commerce Commission indicates will be in the public interest.

Federal Incorporation

The Senate bill provides that all railroads shall be required to organize under a federal charter; while the House bill opposes federal incorporation.

Capital Expenditures and Security Issues

Both bills provide for exclusive federal regulation and control of railroad security issues and capital expenditures—the Senate entrusting this regulation to the Transportation Board, and the House to the Interstate Commerce Commission.

Adequate Revenues and Credit

Both bills recognize the necessity for providing the railroads with revenues that will be adequate for their needs and will result in restoring their credit.

Both bills provide for a continuation of the rates that are in effect at the termination of federal control, until they are changed by competent authority.

The Senate bill requires the commission to divide the country into rate-making districts; but the House opposes this step, believing that rate making based on average conditions of carriers within a given region would be an impossible task.

The Senate bill proposes a new rule of rate making that makes it mandatory on the commission to fix rates that shall be not only just and reasonable, but also adequate; but the House bill leaves the commission free to define its own rule of rate making.

Both bills provide for a continuation of the present plan for the valuation of all railroad properties by the commission.

The Senate bill provides for the creation of two kinds of reserve funds, viz., a company reserve fund drawn by each road from its own excess earnings to support its own credit; and a general contingent fund drawn by all prosperous roads from their excess earnings to support the credit of the railroads of the country as a whole.

The House bill provides for the creation by the Government of a \$250,000,000 revolving fund from which carriers may obtain, during the first two years of resumed private operation, loans bearing 6% interest and maturing in five years.

Both bills provide for equalizing the revenues of the poor and the rich roads by means of consolidation effected under governmental authority.

Both bills provide that for six months after federal control ends the Government shall guarantee to all railroads an operating income equal to the standard return for the same period paid during federal control.

Both bills provide for funding the debt of the carriers to the Government, although under very different conditions.

Wages and Working Conditions

Both bills provide for the continuation of the general plan for the adjustment of labor disputes that has been in effect during the period of federal control.

The Senate bill provides for the creation of three Regional Boards of Adjustment to hear and determine disputes other than controversies relating to wages and working conditions; and the creation of a Committee of Wages and Working Conditions to

have jurisdiction over all controversies respecting the wages and the working conditions of railroad employees. In addition the Senate bill declares that railroad strikes and lockouts are unlawful.

The House bill provides for the creation of three Boards of Adjustment to hear and decide disputes between the railroads and certain classes of their employees, and three Appeal Commissions to consider appeals sent to them by the three Adjustment Boards.

Federal Agencies of Regulation

Both bills provide for the exercise of many new regulatory functions by the Federal Government—the Senate bill creating a new agency to exercise the new functions, and the House bill entrusting all of the new functions, as well as the old, to the Interstate Commerce Commission.

The Senate bill provides for the maintenance of the Interstate Commerce Commission with its rate making, valuation and accounting functions; and also for the creation of a Transportation Board to plan and supervise railroad consolidations, to regulate security issues and capital expenditures, to serve as a final board of appeal in labor controversies, to exercise certain executive and administrative functions now exercised by the Interstate Commerce Commission, and to perform many other important federal regulatory functions.

The House bill establishes no new agency for railroad legislation but provides for the maintenance of the Interstate Commerce Commission with two additional members and with authority to exercise all of its present functions and many new ones.

WHY RAILROAD REGULATION HAS FAILED

H. T. NEWCOMB

Lawyer, New York

THE situation of the railways of the United States at the present moment, as developed in these discussions during the last few days, is very easily summarized, and in very few words.

On two days' notice, at the end of 1917, the owners of the properties were expropriated in the face of a great national emergency which, under the conditions then existing, undoubtedly made that expropriation necessary. For the two years that have ensued they have been managed by public officers and with this result, that the Government of the United States has sustained a heavy loss each year through the insufficiency of the revenues to make up the expenses which the Government incurred; a thousand millions of dollars have been added to the wages-expense of the railroads; wages have been raised as though there were a bottomless pocket from which to draw the funds necessary to meet them. The properties have been—owing to exigencies that probably could not have been avoided—undermaintained, and are no longer in the excellent condition in which they were when taken over. All expenses of operation have gone up, not only through wages, but through the greater cost of all the materials and supplies necessary for operation.

Now that the railways are to be handed back to the owners and, under these conditions, they ask a guarantee for the short period of six months in order that they may have time to adjust themselves to the new conditions and to develop and restore the efficiency which they had before their organizations were destroyed, before the properties were taken out of the hands of their proper officers, those selected by the security owners. This guarantee is more necessary in the interest of general industrial stability and public welfare, than in that of any railway or any group of investors in railway securities.

It seems to be admitted, without qualification, that most of the regulation which we had up to the end of 1917, when this happened, was not wholly successful. My friend, Professor Johnson, suggests that we should have a transportation board. I take it

that this board is to regulate the Interstate Commerce Commission. I wonder who would regulate the transportation board and how soon regulation of the transportation board would become necessary? "Big fleas have little fleas to bite 'em and so on ad infinitum."

We commenced this form of regulation in 1887 with a very modest attempt; a law depending principally on publicity, declaring the principles of the common law that there shall be no unjust discrimination and no excessive rates; forbidding pooling, that is attempting to enforce competition, and enacting, as perhaps its most rigorous provision, the "long and short-haul" clause, but partly subject to dispensing power on the part of the Commission and not enforceable at all except under substantially dissimilar circumstances and conditions.

Of course that statute, as everybody knows, was a compromise. No one really wanted an Interstate Commerce Commission at that time. The advocates of drastic regulation proposed a measure which would contain hard and fast rules that would have to be obeyed, and the Commission was inserted as a compromise between those who wanted very drastic regulation and those who did not want any regulation at all. That act was amended in 1889; in 1891; in 1893, when we obtained the act which permitted the United States to compel testimony from persons who claimed that their testimony might be self-incriminatory.

In 1903 we had the Elkins Law and the Expedition Act; in 1906 the Hepburn Law which, for the first time, conferred real rate-making power upon Federal officers, and in 1910 we obtained the regulation which finally made operation of the railroads during an emergency impossible—the statute giving the Interstate Commerce Commission power to suspend changes in rates, thus making it impossible promptly to adjust rates to changed conditions.

That act, of course, had its natural result. The fall in the value of money which had commenced in 1896 and gone forward very rapidly up to 1914, the beginning of the war, became very rapid in 1914, and much more rapid after 1915, and rate schedules to which the railroads were tied partly by statute and partly by custom, became totally inadequate under the situation thus developed. The money which they received was measured in depreciated currency and was insufficient, and the act of 1910 made it impossible for them to correct that situation.

Consider this contrast. Our fathers went through the Civil War, a war which for four years made drains upon the man and money power of this Nation infinitely greater than anything that happened to us during the twenty months of our participation in the European war, months that succeeded our period of wonderful prosperity while not engaged in the great war. Yet during the Civil War no railroad not in the immediate track of hostilities had to be or was taken over by the Government. There was then infinitely greater need for railways for the prompt movement of troops. There was infinitely greater need of going to the money market and getting the last cent that market could supply, but it was not necessary to take over the railroads. Has any one any doubt why it was necessary in 1917 to take them over? Because, although the power of the President of the United States could take these properties into the hands of the Government, the power of the President of the United States could not direct the Interstate Commerce Commissioners to grant a speedy and rapid increase in rates and thus to permit precisely the sort of adjustment that was made all through the Civil War.

During the Civil War period the railroads adjusted their rates, almost daily, to the depreciated value of the currency in which they were paid. During the war through which we have just passed, no such power existed and in order that the Government of the United States might have ready recourse to the money markets, in order that failures of railroads to pay interest on their bonds should not create a situation which would make it impossible for the United States to borrow—it would greatly increase the difficulty of financing the war—it was necessary to take them over. They weren't taken over for any other reason at all. There was no question of inefficiency. At the end of 1917 the railroads were carrying more freight and carrying it better and performing all the services for which they existed with higher efficiency than at any other time in the history of those properties. There was no reason for the expropriation of their owners except the financial reason.

Now the question is, whether we are to go back, at this period, to the same form of regulation which we have had, which produced those particular results and which, if we go back to it, will leave the railroads forever in the condition of being unable to respond to any great national emergency, not through any lack of efficiency on the part of the men who operate the railroads and

have direct responsibility for their operation but because the Government of the United States has tied those men hand and foot and they are unable to make the price adjustments which every other business industry—except the regulated industries in this country—is able to make.

For thirty years I have lived in the midst of this regulation, a close and a constant witness of the misadventures of the legislative attempts which I have very briefly attempted to review. Every failure and every inadequacy of that legislation has been an argument for more legislation along the same line. No failure, no inadequacy, has ever been advanced as an argument for abandoning the plan, or for changing or modifying the plan, but every failure has been an excuse for more action, and more drastic action, along the same precise line. Thus every false step has led to another equally false and, continuously, we have gone further in a wrong direction. Therefore, without forgetting any aphorism that you may think applicable, I wish now to ask whether mistakes must forever be reasons for more mistakes?

AN ENGINEER'S POINT OF VIEW

HILLHOUSE BUEL

Industrial Engineer

THE subject of railroads is possibly as interesting as any subject that we have to deal with, because it is one of the three major divisions of our activities, namely, production, distribution and consumption. It, therefore, enters into all the factors of our lives.

Government Operation

I have been interested in following the different bills that have been presented in Congress, and the different comments that have been made upon them. The remarks in regard to the Plumb Plan bring out the question of government ownership or control.

I would like to say just briefly that government ownership, operation or control, while it might operate satisfactorily in an autocracy, if your autocrat were wise, will not work out satisfactorily in a democracy such as we have to-day. Although we may change our democracy in the future, under our present form of democracy, we would find that government ownership would impose upon us a paternalism which would destroy incentive, paralyze initiative, and retard progress.

In the second place, the officers would be appointed, not for their experience and ability, but on account of their influence and usefulness to the prevailing party. This could only lead to inefficiency. It is not the way we solve economic problems.

Faulty Organization

Recently we have had an illustration of improper organization at Washington in the National Industrial Conference. To start with, the conference was improperly composed. The men were not selected on account of their special fitness to solve economic problems. Secondly, the conference was improperly organized and its methods of procedure were opposed to economic law. It was organized into two or three conflicting groups that were to oppose each other and to arrive at their conclusions by arbitrary determinations, compromise, barter or the numerical ponderance of a mere vote.

Solving Economic Problems

Now, economic problems are not solved by guess work, and they are not solved by a mere vote. If you want to know how many peas there are in a pod, you do not call a conference and take a vote on it. Economic problems should be solved by accurate and thorough observation as a basis for exact and scientific determinations. When you constitute these different bodies that are to solve your economic problems with properly chosen engineers—transportation engineers, industrial engineers, and production engineers, managers who have had successful experience in the operation of their different activities, and your various operatives that cover the successful operations in your different departments—when you have brought together a body or staff of such material, you will have a fair chance first, to see that the situation is properly observed as a prerequisite for your future determinations, and second, that you have the men qualified to make the careful, exact determinations necessary for sane, workable, economic operations of the transportation units.

A Comparison

To the gentlemen who stated that "we are the only country in the world that does not own its own roads," I wish to answer first, that his statement is a bit broad, and second, that a comparison of the growth and development of our railroads and our country with the other countries of the world would seem to commend our system over all others. I sincerely trust we will have the good sense not to destroy or impair that incentive which, in a brief one hundred years, has made us in production and progress the giant and premier country of the world."

Much has been said in support of consolidating and regrouping the railroads under a board, something of zoning by public officials, and much more about the expenditure of capital, the equalization of revenues with the contingent fund and refinancing. To these issues I want to reply briefly.

Wise and Unwise Consolidations

It has been my experience that consolidations are commonly effected, wittingly or unwittingly, with total disregard of what functions can or cannot be consolidated with good results. The provisions advocated and those embodied in bills now pending or heretofore submitted to Congress if enacted or made effective would ultimately disorganize and greatly impair the entire trans-

Proposed Plans for

A Summary

Secretary, Railroad Committee of the Chamber of Commerce

THE Chamber of Commerce of the United States has prepared the accompanying chart to show in convenient form for comparison by busy men seven proposed plans for railroad legislation. In all probability one of these plans will be enacted into law before the

President returns the railroads to their owners on a voluntary first.

The Transportation Conference plan is proposed by the National Transportation Conference which was called into existence under the auspices of the Chamber of Commerce

	Senate Committee Plan	Commerce Commission Plan.	Railway Executives Plan
	The Cummins Bill S-2906 presents the recommendations of the sub-committee of the Senate Committee on Interstate Commerce. It provides for:—	The Each-Pomeroy Bill H. R. 4378 presents the plan proposed by the Interstate Commerce Commission. It provides for:—	The tentative draft of the plan submitted by the House Committee on Railways and Canals, by T. D. Cuyler, President of the Association of Railway Executives, provides for:—
Ownership and Operation	Ownership and operation of all the railroads in the United States by 20 to 35 separate competing systems.	Ownership and operation of all railroads by private corporations under broad federal supervision.	Ownership and operation of all railroads by private corporations under a broad national system and a unified system of government regulation.
Consolidation and Competition	Consolidation of all railroad properties into 20 to 35 systems in accordance with a plan previously adopted by the Railway Transportation Board and approved by the Interstate Commerce Commission—consolidation to be voluntary if accomplished within seven years, and if not, compulsory.	Consolidation of existing railroad systems when approved by the Interstate Commerce Commission.	Consolidation of existing railroads into strong competitive systems wherever found to be in the public interest; and also provision for joint use of equipment and terminals when in the public interest.
Federal Incorporation	Federal incorporation of all railroads with a requirement that each corporation shall include in its Board of Directors two representatives of classified employees and two representatives of the government.	Opposition to federal incorporation as a complicated, protracted and probably unconstitutional method.	Provision for permissive general incorporation of all interstate carriers.
Security Issues and Capital Expenditures	Exclusive regulation and control by the Interstate Commerce Commission of the issuance of railway stocks and bonds and of the purposes to which the proceeds thereof may be applied.	Full control by the Interstate Commerce Commission over stock and bond issues and over the expenditure of the proceeds.	Exclusive national control of the issue of securities and the expenditure of new capital; control to be exercised by the Federal Transportation Board.
Adequate Revenues	Initiation of rates by carriers subject to the approval of the Interstate Commerce Commission. Requirement that the Interstate Commerce Commission shall divide the country into rate districts and the carriers into rate groups for rate making purposes. Regulation of all rates that affect interstate commerce by the Interstate Commerce Commission under a statutory rule providing that in making rates for the several rate groups the Commission shall take into consideration the interest of the public, the shippers, the wages of labor, the cost of maintenance and operation, including taxes and a fair return on the value of the property.	Regulation of rates by the Interstate Commerce Commission under the provisions of the Act to Regulate Commerce with amendments shortening the period of suspension of rates, authorizing the Commission to determine the division of rates between carriers, to consider the cost of service principle in fixing rates, and to exercise other broad powers affecting the general rate structure.	Initiation of rates by the carriers. Exclusive regulation of rates by the Interstate Commerce Commission with the aid of the Federal Transportation Board. Sub-commissions under a statutory rule prescribing the level of rates shall provide a return sufficient to pay wages and other expenses of operation, to maintain the value of the property used in the public service and to establish and maintain a credit sufficient to meet the new capital necessary to meet the public need for transportation facilities. Certification by the Federal Transportation Board to the Interstate Commerce Commission of the amount of operating revenues needed by the carriers to enable them to perform their functions.
Wages and Working Conditions	Creation of a committee of wages and working conditions (four employees and four representatives of the companies) to settle disputes; with appeal to the Transportation Board in case of deadlock. Declaration that decisions of the Board, if approved by the Government, shall be final, and that railroad strikes and lockouts are forbidden.	(No declaration.)	(No declaration.)
Federal Agencies of Regulation	Continuance of the Interstate Commerce Commission with enlarged powers to regulate rates and security issues. Creation of a Railway Transportation Board with five members appointed by the President to perform many important executive and administrative functions, including some now performed by the Interstate Commerce Commission.	Maintenance of the Interstate Commerce Commission with all of its present powers and in addition authority: to regulate carriers by water; to control consolidations, joint use of facilities and the pooling of freight earnings; to authorize additions, extensions, and the construction of new lines; to adjust conflicts between federal and state jurisdictions; and to control security issues and capital expenditures.	Maintenance of the Interstate Commerce Commission with authority to regulate rates and control its present valuation and accounting functions. Creation of a Federal Transportation Board composed of three Commissioners appointed by the President and charged with the general oversight of the point of view of the public interest of all transportation. This board would be co-ordinated with the Interstate Commerce Commission and would relieve it of all functions except rate regulation, valuation and accounting.

Railroad Legislation

Richard Waterman

Commerce of the United States

ed States, and included in its membership promi-
nent belonging to every important interest affected
transportation—commercial, industrial, agricultural,
social, labor, governmental, economic, civic and social.
fundamental features of this plan, printed below in

black-face type, have been approved by a referendum
vote of the business men of the country. Certain ad-
ditional features of the Conference plan, printed below in
light-face type, are in harmony with the remainder of the
plan, but have not yet been submitted to a referendum vote

Transportation Conference	Warfield Plan	Amster Plan	Plumb Plan
The Frellinghuysen Bill S. 2998 is the plan proposed by the National Transportation Conference held by the U. S. Chamber of Commerce.—	The tentative draft of a bill laid before the House Committee by S. Davies Warfield, President of the National Association of Owners of Railroad Securities.—	The Lenroot Bill S. 2889 presents the plan proposed by Nathan L. Amster, President of the Citizens National Railroads League. It provides for:—	The Sims Bill H. R. 8187 presents the plan proposed by Glenn E. Plumb, and endorsed by the Railroad Brotherhoods. It provides for:—
Ownership and operation of all railroads in the United States by federal corporations as a comprehensive system of government regulation.	Ownership and operation of all of the railroads of the country by the existing railroad companies.	Ownership and operation of all railroads by one privately owned and privately operated railroad company with full public control.	Ownership of all railroads by the United States Government. Operation of all railroads as a single system by a corporation composed of railroad employees.
Consolidation of existing railroads into strong competitive units under conditions prescribed by the Federal Transportation Board; with provision after five years the conditions planned by the Board well advanced, the Board require their completion.	Permission to consolidate existing railroads when found by the Interstate Commerce Commission to be compatible with the public interest.	Complete consolidation of all railroad companies into a single national corporation thus putting an end to competition. Valuation at which each railroad is acquired to be determined by averaging original cost less depreciation and net earnings over last ten years capitalized at 8%.	Consolidation of all of the railroads into a single national system; and elimination of all competition.
Federal incorporation of all existing railroad companies and of new companies; the management of the company shall be managed by 12 directors of whom 8 are elected to represent the stockholders and 4 to represent the public interest in the territory served by the system.	Opposition to federal incorporation on the ground that it is unnecessary, is probably unconstitutional and would involve endless litigation.	Federal incorporation of the National Railway Corporation with a board of eleven directors, including one director representing the Interstate Commerce Commission, one the State Commissioners, two the employees, two commerce and industry, two the farmers and three the stockholders.	Federal incorporation of the National Railways Operating Corporation for a term of 100 years with a board of 16 directors—6 named by the President, 6 elected by the operating officials and 4 elected by the classified railroad employees.
Exclusive federal regulation of capital expenditures and the issues of all railroads and in interstate commerce.	Supervision by the Interstate Commerce Commission (in conjunction with the six Regional Commerce Commissions) over issue and sale of securities and over the expenditure of proceeds.	Complete supervision by the Interstate Commerce Commission of the issuance of all securities and the expenditure of the proceeds.	Issue of all railroad securities by the United States Government. Expenditures of all capital funds for railroad purposes by the United States Government.
Initiation of rates by the carriers subject to the approval of the Interstate Commerce Commission.	Initiation of rates by the carriers; and consideration of proposed changes in rates before the schedules are filed with the Commission) by rate committees composed of representatives of the railroads and the shippers.	Initiation of all rates by the Corporation. Regulation of rates by the Interstate Commerce Commission under a statutory rule providing that rates shall be adequate to produce revenues sufficient to pay all proper operating expenses and fixed charges, to pay maximum dividends of all outstanding stock and in addition to produce a sum not exceeding 2% of the par value of all outstanding stock.	Initiation of all rates by the National Railway Operating Corporation. Regulation of all rates by the Interstate Commerce Commission.
Maintenance of a general rate level by the Interstate Commerce Commission under a statutory rule prescribing that rates shall as nearly as possible produce a net return on the aggregate fair value of the roads in each traffic territory of the country. Division of an individual company's own credit; and of a contingent fund maintained by contributions from all roads to support the maintenance of all railroads.	Maintenance of a general rate level by the Interstate Commerce Commission under a statutory rule prescribing that rates shall as nearly as possible produce a net return on the aggregate property investment account of the railroads grouped in each of the three classification territories; each railroad receiving as much of the 6% as its efficiency in operation may secure for it under competitive conditions. Distribution of the excess earnings of each road, 1/3 to the road and 2/3 to be divided equally between labor and the public.	Government guarantee of a 4% dividend on all stock issued by the Corporation; payment of a maximum dividend of 6% when earned; and distribution of all earnings in excess of 6%—40% to labor, 30% to the public for improvements and retiring outstanding stock and 30% to the stockholders.	Payment of deficit (if any) by the United States Government. Distribution of surplus earnings (if any) after operating expenses are paid and fixed charges are met, including the interest on outstanding government securities—1/2 to the government and 1/2 to the railroad employees.
Adjustment of wages, hours and other conditions of employees by boards composed of equal numbers of representatives of employees and of the railroads, with appeal in case of a deadlock to the Transportation Board as provided in the plan.	Authorization of each Regional Commission to act as a Board of Conciliation or Arbitration in all controversies between the carriers and the employees in its region. Its decisions being subject to review by the Interstate Commerce Commission.	Appointment from time to time of advisory boards composed of equal numbers of representatives of the employees and of the Corporation to investigate demands relating to wages, hours of labor or working conditions and publish their findings and recommendations which, however, shall not be binding on either side.	Determination of wages by the Board of Directors of the Corporation. Adjustment of disputes between officials and men by boards to which the operating officials elect 5 members and the men 5 members with appeal to the Directors in case the Board fails to reach an adjustment.
Maintenance of the Interstate Commerce Commission with all its powers and with certain additional powers over rates. Creation of a Federal Transportation Board of five members appointed by the President to supervise the development of a system of rail, water and airway transportation, to prevent and propose measures for preventing abuses thereon upon the public necessity of capital expenditures and to regulate security issues.	Continuation of the Interstate Commerce Commission to control and regulate rates, adjust wages and perform other regulatory functions belonging to the federal government. Creation of six Regional Commerce Commissions to exercise concurrent jurisdiction with the Interstate Commerce Commission. Formation of the National Railways Association, a corporation managed by nine Interstate Commerce Commissioners and eight representatives of the railroads to furnish a great clearing house for railroad operation.	Maintenance of the Interstate Commerce Commission with all of its present powers and in addition authority to regulate security issues and capital expenditures and to exercise other broad regulatory functions. Creation of an Efficiency and Economy Board of five members appointed by the President—four from a list submitted by the national engineering societies and one nominated by the employees—to study facilities and service and to devise and recommend improvements in capital equipment and in operating methods.	Maintenance of the Interstate Commerce Commission with its present rate-making powers. Creation of the Railway Board of Appraisal and Extension composed of the nine Interstate Commerce Commissioners and three other members selected by the Directors of the Corporation to determine the amount of compensation to be paid to the present owners of the roads and the amount to be paid for new extensions and improvements.

portation system, would greatly retard and impede industry and commerce and only result in heavy loss to the whole country.

Our experience during the war with uneconomic overconsolidations and over-centralizations attempted without a proper knowledge of the fundamental principles of economic organization and distribution of functions, should cause us to pause before we plunge headlong into other top-heavy consolidations, which are not, as a prerequisite, squarely founded on scientific economic determinations of all factors involved. We have seen war organizations that worked well in large cities break down with costly results when applied by the same officials to the country as a whole, because they did not understand the fundamental principles of organization and economic adjustment of functions. Consolidations should be limited to normal extensions and combinations which have an economic value, preserving all proper economic competitive factors. A contrary course would prove most costly and unwise.

Economic Co-ordination

It is, however, vitally essential that the transportation units of the country be properly *co-ordinated*. By this is meant *not* the consolidation of all the roads, but the relating of the several units so that they will function to the common advantage while preserving their individual identity and several operation. So related, they would avoid destructive competition while stimulating a wholesome competitive rivalry, encouraging genius and effective economics, and furthering development and progress. Properly adapted and applied this would result in direct benefit and profit to the roads, to the employees and to the entire industrial and commercial interests of the country. This can be done.

Rates

The statement that "the correct solution of rates is to have them made by public officials" is unsound and ill advised. Shoes should be made by shoemakers and rail rates by rail rate-makers experienced in railroading. Nor should they be arrived at by compromise, barter or the mere ponderance of a vote. The Governmental administrative body, with examiner and public service functions, should have one or two experienced rail rate men in its body and should see that the making and administration of rates conform with the law. The statutes should be expressed in terms of principles, limitations and self-

determinate ratios and worded so as to preadvise the roads what their obligations and duties are. The provisions for the public service functions of the administrative body should grant authority to meet situations, emergencies and needs which the statutes fail to cover.

Distribution of Revenues

Much has been said in approval of the contingent fund plan and the equalization of revenues as expressed in Section 6 of Senate Bill 3288. I am obliged to take issue with the proponents of these provisions. Of all the pending legislation, if enacted and enforced, this section, which proposes to distribute certain earnings of profitable roads to the unprofitable roads, would in time only wreck the transportation system of the country and cripple industry and commerce. Roads now efficient would become inefficient and inefficient roads only less efficient. The section as it now stands fatally violates all economic law. It, in fact, provides a system of *forcing accounts* to meet deficits—but another sample of *super-accounting* for self and public deception. It is economic error to penalize efficiency or to put a premium on inefficiency. Experience teaches that what does not conform to economic law cannot endure. This is axiomatic.

Economic Solutions

There is a solution to this problem and this section of the Senate bill can be amended to conform to the law.

First. It should provide for a standard wage scale, cost of operation, rates and dividends in limitation of ratios and percents as a result of an exhaustive engineering survey.

Second. It should provide a margin in rates to meet fluctuations, the balance resulting going to the Government as a tax and thus finally returning to the consumer.

Third. It should provide that any savings or increased balances resulting from any efficiencies or economies that shall be effected shall be distributed one-third to the shareholders in the form of increase to dividends; one-third to the employees and management, effecting the saving and one-third to the Government on earned sums until such time as it can be applied in a permanent reduction of rates. By thus preserving proper incentive for greater effort and efficiency, substantial economies will be encouraged and inventive genius stimulated. This is good business.

Plans to Refinance

It has been stated here by a gentleman who stands high in financial circles that "the \$6,000,000,000 needed to refinance the railroads of the country cannot be raised by any conceivable plan." In taking issue with the speaker, I wish to state that I might refer him to half a dozen or more gentlemen who can provide a suitable plan for this accomplishment and that my own work on this problem some months ago crystallized in the concrete form of an outline and chart, which I am able to state is well adapted effectively to finance the railroads on a safe and sound basis and impart a high standard of security to their paper.

Arbitration

The provision in pending legislation looking to make arbitration compulsory is both amusing and unwise. Unwise because it will not work. Amusing because it is just the opposite from what it should be. The act should specifically provide that no rates, no wage scales, no time schedules and no operating factors shall be or become a subject for arbitration or bargaining. That these elements shall be fixed only as the result of exact, scientific determinations of accurate and thorough surveys made by a competent staff of engineers constituted for that purpose. It is time we removed the solution of these problems from the realm of guess work, bargaining, barter and compromise. When we do so, all individuals and groups concerned will profit most greatly.

Present Needs

What the railroads need is not copious legislation and multiplicity of boards, but rather the enactment of a few simple measures and some good straight work by those who will untie their knots and map out the working details of plans that will carry into effective operation the proper relating of their several activities.

Conclusions

In conclusion I wish to urge that the pending bills and legislation be amended before enactment in line with these suggestions,—and that steps be taken by those in a position to act, to form and provide for a staff of engineers and experienced railroad men who shall take up the solution of these problems and work out detailed plans to carry solutions into effective operation.

THE REGULATION OF WATER CARRIERS

R. A. HISCANO

General Manager, Catskill Evening Line, New York

IN the past three years there has been considerable attention directed to our waterways, and this is due to the growing realization of the need for additional transportation facilities. Recent experience has plainly indicated that the railroads of the country can not entirely take care of the country's traffic, and for many reasons extension of the railroad systems is not possible, particularly in the more densely settled sections of the United States. We then come to the question of what can the water lines do to furnish the additional means of satisfactorily handling the country's tonnage.

In order to form some basis for the plan of the more intensive use of the rivers, lakes and canals of the United States it is necessary to consider the position the water lines occupied sixty years or more ago. At that period the bulk of the tonnage was shipped by water and the rail lines were not the mainstay of the shipping or traveling public. As you all know, gradually the railroads extended and as they grew the water lines declined. Now many reasons have been advanced which explain why the waterways each year continued to be less and less used, but I think the first and most important cause was the smaller scale on which a navigation company was operated. It was usually an individual organization dominated by one man whose financial means were necessarily limited. In fact, this condition still exists today to a great extent. Now a one man company could not always keep abreast of times and so, when the equipment wore out, no attempt was made to renew it or to continue the service.

Gradually as the water lines in a section retired, others were discouraged from attempting to enter the field. The second reason was the unceasing warfare waged by the railroads, who, with their extensive organizations, were able by cut-throat rates, competing service, rebates, etc., to force those lines out which could otherwise have continued in business.

This is of course, all a matter of history now, and by reason of national laws and public opinion, the existing water lines now have a better opportunity to conduct their business. The prob-

lem of to-day is to restore to our rivers and canals the service which is required and those who have studied the question, think that some of the following ideas should be adopted:

First, discourage Congress from enacting any additional legislation which will have a tendency to drive the water lines from business. For example, the Esch Bill recently introduced in the House of Representatives originally contained a provision to place the water lines completely under the jurisdiction of the Interstate Commerce Commission. Only the strongest kind of protests filed by shippers, commercial organizations, and navigation companies were successful at the last minute in having this feature eliminated from the bill. Another point, the existing Interstate Commerce Act has been construed by the Interstate Commerce Commission to give the commission authority to prescribe the form of bill of lading issued by navigation companies, although such jurisdiction and order would annul the provision of the Harter Act and other legislation expressly enacted to protect the water lines because of the greater hazard they encounter in the conduct of their business. If the United States Supreme Court upholds the commission, then Congress should amend the law so as to deprive the Commission of such authority in this particular.

Secondly. Congress should on the other hand pass such legislation as will compel a railroad company to extend to a connecting water carrier the same division of through rates, or terminal facilities, or share of unrouted traffic as is given to a connecting railway line, all conditions being equal. However, the originating rail carrier should not be compelled to take a lower division than the rail competitor of the water line would allow it, or that the originating rail carrier should give a greater share of unrouted traffic than the boat line turned over to it. To illustrate the reason for this proposed law, I wish to point out that the port to port local traffic of a water line is not usually sufficient to make operation of the line profitable, and a certain amount of through or joint rail and water freight is needed. Now the present practice is for the powerful railroads to allow the smallest division of joint rates they can be forced to give, with the result the navigation companies can not earn sufficient to pay even the handling charges on the through freight, and they therefore do not encourage the business. On the other hand where two connecting rail lines join in through rates the divisions are ar-

ranged on the basis of the actual mileage the goods travel over each company. The country demands that more through rail and water routes be established and so far as the water lines are concerned, they are anxious to meet the demand, but they can not do so if they have to carry the traffic at a dead loss.

It may be interesting to know that early in this year the Director General of the United States Railroad Administration announced to a committee of Congress that he was in accord with this plan of more through water and rail routes, and a committee of water lines officials immediately communicated with him and stated that if he meant what he said they were willing to join him. Well, there were several conferences and the water lines filed their briefs and exhibits, but here it is nearly the end of the year and nothing whatever has been accomplished.

I have only one more idea to suggest before I conclude and that is this; the financial and banking interests can assist materially in the movement to revive the use of our inland waterways by helping to finance legitimate and sound proposals put forward by navigation companies. There seems to be no difficulty to get financial support for all the new deep-sea steamship companies which are being organized to sail from here to the ports of the world. Why should our domestic needs be ignored? Just look at the splendid New York State Barge Canal recently constructed at a cost of over one hundred and fifty million dollars waiting to be made use of. Its capacity is estimated at ten million tons yearly, and last year there was barely one million tons shipped through it, due entirely to the lack of navigation companies. What that waterway needs to make it serve the purpose for which it was constructed is a corporation with about twenty millions of dollars capital to furnish the same kind of freight service that the rail lines paralleling it offer the public. This would not be injuring the railroads for there is enough business for both classes of service.

THE RAILROADS AND THE INVESTOR

THOMAS REED POWELL

Associate Professor of Constitutional Law, Columbia University

THE lesson for the day is "The Railroads and the Investor." As money makes the mare go, so it does the railroads. Money from freights and fares will run the roads after they are built. But the roads must be built before they can be run. Expenditures for initial construction and capital outlays for extensions cannot be squeezed from shippers and passengers. They must be obtained from investors or from the government. There are but two ways of securing the necessary capital for the railroads. One is coercion; the other is seduction. If the government chooses to finance the roads, it may use both coercion and seduction. It can tax and it can borrow. If, on the other hand, we are to finance the roads through private investment, our only recourse is to the arts of seduction. We must persuade those who have money that it is worth their while to become stockholders or creditors of the corporations which own the roads. Whether persons with money will care to put it to the use of the railroads will depend upon what they can look for by way of interest or dividends as compared with what they can hope to get if they put their money elsewhere.

The gentlemen who are to address us this afternoon are to tell us what seductions we must practice on investors to prevail upon them to put their money into railroad stocks and bonds. This may not be the precise point to which their remarks are directly addressed; but it is a point on which all their remarks must bear. For the treatment accorded to those who have already put their money into railroads has an important relation to the seduction of those whose further aid the road must have. If past investors are dissatisfied, future investors will insist on inducements more alluring.

The interests of past investors are supposed to be protected by the courts. Legislatures and commissions may limit the returns of investors by limiting fares and freights. But there is a limit to this limitation. The courts require that the fares and freights be left high enough so that the roads earn what is called a fair return on their fair value. Perhaps we may learn this afternoon

what this so-called "fair value" is; but up to the present moment, nobody knows. It can't be what the roads would be worth if their rates were not subject to regulation, for this would defeat the undeniable power to regulate. It isn't what the roads actually cost, and it isn't exactly what it would cost to build them now in their present partly worn-out condition, though it squints a good deal in this latter direction. The courts have been more explicit in telling what fair value is not, than in saying what it is. Whatever it is, it is some combination of incongruities, some compromise of competing inconsistencies.

The judicial treatment of the problem has been woefully artificial. With an animism which reminds us of the days of the deodand, the courts have talked as though what was being regulated was the roads themselves, the physical equipment of ties and track and rolling stock. Plainly a realistic approach to the problem would have recognized that regulation affects persons, not things. The parties in interest are the shippers and passengers on the one hand, and the stockholders and bondholders on the other. Plainly, too, the situations of the stockholders and bondholders are not the same. The bondholders have contracted for an agreed rate of return. The stockholders have taken a chance. Yet the return to which the court refers is a return to the road, not to the persons interested in the road. The road must have a fair return on *its* fair value. The bondholders then get the return they have contracted for; the stockholders get the rest. Thus where a road is financed largely by bonds bearing interest at a lower rate than that allowed to the road as a fair return on its fair value, the rate of return for the road gives but an imperfect index of the rate of return enjoyed on the stockholder's investment. Yet it is that investment which is affected by rate regulation and which ought to be the primary object of judicial attention as it is necessarily the primary object of judicial concern.

The courts have been much more certain about what is a fair return than about what is fair value. Until very recently they have regarded six per cent as a fair return and have sometimes approved of less. They seem to have been guided by the normal rate of interest on money loaned rather than the normal rate of income from business. Yet, from the stockholder's standpoint, the railroad enterprise is a business, subject to the fluctuations which other businesses must face. Investors would not put

money into railroad stock with no hope of getting more than six per cent and no guarantee of getting that, when they could put it into other businesses where the risk is no greater and the returns are not subject to legal limitation.

Undoubtedly some of the artificialities of which the courts have been guilty tend to counterbalance each other. This is true of the failure to note the relevance of the ratio between bonds and stock and the fixing of the rate of fair return at the normal interest rate on money loaned. Six per cent on the fair value of the road may mean more than six per cent for the stockholders and so tend to put their investment on a par with those in other businesses. So also the rather rigid limitation on the rate of return may be offset by the liberality displayed in the judicial guessing as to fair value. And results which might seem to be a formal injustice to stockholders may be formal only and not substantial, by reason of the circumstances under which the stock was acquired.

Another element to be considered is that rate regulation must often fail to depress the rates to the lowest point that would pass muster with the courts. Governmental regulation of railroads rides two horses that often go in different directions. We wish rates to be reasonable; we desire them also to be proportional. So long as our test of reasonable is based largely on the financial results to the roads, it must follow that a schedule of rates which would be reasonable for one road would be too high or too low for others. If we should reduce the rates on the favorably-situated roads to the lowest point which will yield them a fair return on their fair value, their less favorably situated competitors could not do business unless their rates were equally low. And by hypothesis this would leave them less than a fair return. That such indirect results of lawful regulation of the stronger roads would never be regarded as an unconstitutional taking of the property of the weaker roads must be practically certain. Nevertheless it is a misfortune which we have not thus far sought to put upon the weaker roads. We have dealt with groups of carriers rather than with individual roads. Thus it must happen that the stronger roads have not been restricted to the lowest rates that the courts would sanction. This is nice for the stockholders, but not so nice for shippers and passengers. Here is a problem still awaiting a satisfactory solution.

Enough has been said to indicate how far our existing methods of control fail to deal realistically with the competing interests of the carriers and their patrons. What the results have actually been or what they are likely to be cannot be known by one whose reading had been largely confined to judicial opinions. By and large the courts seem to have tried to protect railroad property in such enhancements of value as are enjoyed by property devoted to other uses. As it is the monopoly position of the roads which gives rise to governmental limitation of their charges, so the primary purpose of rate regulation would seem to be the prevention of exactions that are rendered possible only by such monopoly position. If we mean to go further and prevent the enhancement which other property is still allowed to enjoy, we can hardly expect persons to put their money into regulated enterprises, so long as unregulated enterprises compete for it. If we plan to deny the prospect of any unearned increment, we must certainly offer security against decrement. If we are to seduce investors to put their money into railroads, we must meet the seductions offered by other businesses. The courts seem to have had this necessity vaguely in mind, and to have intended to thwart the rate regulation that would deter investors. If their handling of the problem has been unsatisfactory, it is due in considerable part to the way in which the task has been put upon them. Our legislatures and commissions have dodged the genuine issues in the situation and have felt their way timidly and compelled the courts to grope in darkness.

The topic of this afternoon recognizes that the genuine issue is one of returns to investors so long as the roads continue to be financed by private investment. The approach to the railroad problem from the investor's angle is essential, whether we continue existing methods of governmental control or devise new ones. An understanding of the investor's position is a necessary prerequisite to a decision whether we shall continue existing methods or devise new ones, and, if the latter, to the choice between the various expedients open to us. If we are to stick to some form of seduction of investors, we must know how much seduction is necessary to get the desired results. If investors prove too coy, we shall know that we must try coercion. Coercion means in the long run the raising of funds by taxation or else the very exaction on shippers that regulation seeks to prevent. Coercion leads to governmental guarantees if not to government

ownership. Thus the problem of the investor and the problem of the public touch each other. The public must satisfy the investor if it wishes him to continue to invest. The investor must not demand too much of the public if he wishes the opportunity to invest. Thus the papers of this afternoon's session, though concerned with the railroad problem primarily from the standpoint of the present owners of railway securities, necessarily will throw light on the larger public issues which existing conditions force on our attention.

THE REVENUE NEEDS OF THE RAILROADS

HOWARD ELLIOTT

President Northern Pacific Railway Company

YOU have complimented me by asking me to appear before you, and I wish to take your time for a few moments to discuss one vital part of the railroad question, namely, "The Revenue Needs of the Railroads."

There are so many features of the present railroad situation that a proper discussion of the whole subject would take many days.

As you know, the Congress, through committees, has been discussing railroad legislation all this year and has not yet been able to come to a conclusion. It seems quite clear, however, that these committees reflect the views of the people that they do not wish government ownership or government control any longer than is absolutely necessary. This makes it all the more necessary to treat the furnishing of transportation as a business function and to permit the railroads to become self-supporting as business enterprises.

This great American railroad system of 260,000 miles, serving 105,000,000 people, is to the nation on a large scale what the farmer's oxen are to him and the rural mail carrier's horses are to him. Just as their oxen and horses must be nourished and kept in good condition to do their work, so must the railroads be nourished and kept in a sound condition if the nation is to grow and our wonderful resources be conserved and developed, and our great future wisely and thoroughly protected.

Prior to Government control the railroad executives realized that in the face of a growing volume of business, the increases in wages and other costs, and the complications of the business were such that this great transportation machine was not receiving sufficient nourishment to keep it adequate in all of its parts for the needs of the country.

Earnest efforts were made from time to time to obtain general increases in rates, not simply in the interest of the bondholders and stockholders, but in the interest of the people as a whole so that they would be encouraged to put part of their great annual

savings into the railroad business in order that the transportation machine would be at all times "ready to serve." An application for a 15 per cent increase in freight rates was made by the Eastern roads in 1917, and was not finally disposed of when the President thought the war conditions made it necessary for him to take possession of the roads, which he did on December 28, 1917.

The President said to Congress on January 4, 1918:

While the present authority of the Executive suffices for all purposes of administration, and while, of course, all private interests must for the present give way to public necessity, it is, I am sure you will agree with me, right and necessary that the owners and creditors of the railways, the holders of their stocks and bonds, should receive from the Government an unqualified guarantee that their properties will be maintained throughout the period of federal control in as good repair and as complete equipment as at present, and that the several roads will receive under federal management such compensation as is equitable and just alike to their owners and to the general public. I would suggest the average net railway operating income of the three years ending June 30, 1917. I earnestly recommend that these guarantees be given by appropriate legislation, and given as promptly as circumstances permit.

The fiscal year ended June 30, 1915, was a poor year; that ended June 30, 1916, a medium year; and that ended June 30, 1917, a fairly good year, and the average net operating income for the three years, generally known as the "standard return" was approximately \$935,000,000. This was the Government's measure of the net earning power of the railroad system of the country at that time.

The Secretary of the Treasury was made Director General and the United States Railroad Administration began to organize all departments. They found very shortly that the revenues to be received from the existing rates were not sufficient to meet the growing expenses, and this subject received very careful consideration. In other words, the administration took the business-like attitude of trying to manage the railroads as a whole so that both ends would meet.

The Interstate Commerce Commission had granted to the Eastern railroads in the summer of 1917 about half of the 15 per cent increase asked for, and granted the remainder on March 15, 1918, after the roads had passed under the control of the government. The amount, however, was entirely insufficient to meet the rising tide of expenses, and on June 10, 1918, the Director General made passenger rates 3c. a mile instead of 2c. and 2½c. that were in effect in many places as the result of state laws, and on June 25, 1918, increased freight rates about 25 per cent.

The administration naturally hoped that these increases in rates, together with economies that it expected would result from unified operation, would take care of the situation and that there would be sufficient earnings to pay expenses, taxes, and the standard return to the owners.

Before the Senate Committee on January 3, 1919, the Director General testified that he felt the results for 1919 would produce a surplus of \$100,000,000 to the government over all requirements, as follows:

Senator Cummins: Then, do you propose, in order to meet the situation, that there shall be another increase in rates?

Director General McAdoo: Not at all, Senator. On precisely the same basis as now exists as to rates, wages and costs of materials and operation, I think we should have a surplus of \$100,000,000 for 1919.

In other words, the United States Railroad Administration took the very proper view of the situation that there should be earnings enough to meet all obligations. This policy adopted by the government at that time seems a sound one and better for the American people, in the long run, than to turn constantly to the national treasury and ask it to make up any deficiency in revenue. The latter plan tends to check initiative, reduces energy and economy, and encourages waste. It is a policy that, in the long run, will make the total transportation bill of the people made up of such rates as they may pay in the first instance, plus taxes to replenish the treasury, greater than if the rate is adjusted to the service and every incentive to economy and energy is preserved.

The net operating income for the first year of government operation failed to meet the standard return by approximately \$235,000,000. This was in spite of the very earnest, sincere and hard work of the Director General and all of his assistants. In that first year the new rates were not effective for the entire period. There was a very serious winter in parts of the country, and war conditions were most onerous and difficult so that the federal administration had unusual conditions to deal with. It is, therefore, fair to say that 1918 should not be taken as a measure of the results under the new rates inaugurated by the government and under the wage scales that it was necessary to pay because of these conditions.

Figures are now ready for part of 1919, and a fair estimate can be made for the balance of the year. The Director General had hoped that income would be sufficient to meet all outgo, but

the results are disappointing. The figures for the nine months, for Class I roads (earning \$1,000,000 or over) show that the proportion of the standard return for that period has not been met by \$245,000,000. During the months of July, August and September the roads have just about earned the standard return, and possibly in October they may do the same, but there is every indication that the year will end with a substantial deficit, perhaps \$350,000,000 for all railroad operations.

We have at our doors in New England an impressive example of the utter inadequacy of revenues. For the five months ended September 30, 1919, which are very good months in New England, as to weather and operating conditions and as to volume of business, because the great summer travel is at its height, the New England roads failed to earn the standard return for that proportion of the year, namely \$15,908,320, by \$6,630,658, or 41.7 per cent.

This group of roads is in the most serious condition and must receive aid from increased rates and earnings as soon as government control and the standard return cease, if they are to survive and serve the public.

The roads north of the Ohio River and east of the Mississippi are also in a very critical condition. South of the Ohio and west of the Mississippi River the conditions are a little better, but they are not good anywhere.

For the country as a whole, the net operating income is only 62 per cent. of the standard return (for Class I roads) for the nine months ended September 30, 1919.

Senator Cummins, in his report to the Senate, dated November 10, 1919, in commenting upon estimates of deficits, says:

It is the opinion of the Committee, without reflecting in any wise upon the Railroad Administration, that in the end the loss will be found to be much greater than the estimates submitted.

These deficits must be considered in any forecast of future requirements, and, in addition, there are other elements to be taken into account.

Because of the difficulties in obtaining men and material, due to the war, not as much work has been done on the equipment of the roads, especially the freight cars, as is necessary to keep them up to that standard which the needs of American commerce demand.

Nor have there been placed in the tracks of many of the

roads sufficient rails and ties, as is necessary for the best health of the property, and there have been some failures to do work of other kinds because of the conditions as to men and material.

The money necessary to bring the condition of the present properties to a higher standard must be spent in the next few years and is an element in considering the revenue needs of the railroads. This amount cannot to-day be stated exactly, but it will be several hundred millions of dollars.

Again, there are some increases in expenses to be met in 1920 which were not effective for the full year 1919, such as the recent change in rates of wages and rules for men working in shops, estimated at about \$50,000,000 a year. Other increases in wages may have to be made, and these will be an important element in the problem.

There is also the probability that as a result of the recent coal strike, fuel will cost more in 1920 than it did in 1919. The railroads' coal bill to-day is running at the rate of at least \$300,000,000 a year, and prior to the war was about \$225,000,000.

Then the world-wide demand for steel, lumber and all materials for reconstruction work and for doing work that has been postponed or suspended since 1914 means that there will probably be no decrease in the prices of these important elements in the railroad expense account, and there may be an increase.

Additional payments must also be made for new capital to be used for increasing the capacity of the roads to serve the public. For five years prior to the war the expansion of the roads was not rapid enough to meet the needs of the country, and during the war period even less has been accomplished.

It is not too much to say that for new equipment, with the necessary shops and tools to keep it in order, there should be spent within the next few years \$3,000,000,000, and, no doubt, an equal amount for tracks, terminals, electrification and other facilities to make the transportation machine equal to the demands of the country, if growth is to continue.

The increased expenses of states, counties and municipalities, because of higher wages, is being reflected in a constantly increased tax rate, and this also must be taken into account when considering "The Revenue Needs of the Railroads."

In 1910 the taxes paid by the railroads of the United States were \$103,000,000, and for 1919 the total taxes will be approximately \$250,000,000.

To offset this in part private management may be able to have more intensive supervision, develop a greater spirit of energy, and a finer esprit de corps upon individual properties which will tend to prevent further increases in expenses, and, in due time, I hope, bring about some reductions.

I think all will admit that long distance management of industrial enterprises is not so efficient or so economical as where there is close, local, authoritative and responsible supervision and enthusiastic leadership.

There is every reason now to expect that the roads will be returned to the owners on January 1. It is hoped some legislation before that date will be passed that will protect the situation until the necessary readjustments between income and outgo can be made and the earning power of the roads restored. Even before the war the net earnings of the roads were not sufficient to attract the new capital needed each year, and these net earnings are even less to-day, although nearly \$800,000,000 has been spent in the last two years in adding to the plant, not counting equipment. It is fair to say that the net earnings of the railroads under present conditions are plainly inadequate to meet the absolute necessities and to provide at all for the future.

The President said, when he took possession of the roads:

Investors in railway securities may rest assured that their rights and interests will be as scrupulously looked after by the Government as they could be by the directors of the several railway systems.

The railroad officers believe that it would be a wise and proper exercise of presidential power and in the interest of an adequate transportation machine for the use of the people for the United States Railroad Administration to restore the balance between income and outgo, which can only be done by increasing the rates. The spirit of the President's statement when he took the roads seems to justify such action. The Federal Administration has the knowledge, power and ability to act and can do the work more promptly than the owners, and the influence of the government would be much more convincing in bringing about a proper result. The President and the Director General, however, have decided otherwise, and the burden of obtaining an increase in rates now rests upon the owners, who have no other way of obtaining revenue. In fact, the Esch Bill, just introduced, imposes upon the owners the burden of filing tariffs within 60 days after government control ceases, for any increases necessary.

They cannot control the prices for materials, nor can they make reductions in wages, although I believe they can, little by little, get greater efficiency in operation. They must, therefore, ask the country to permit an increase in rates, and the Congress to permit the increase to take effect promptly, without undue interference from state and federal regulatory bodies.

Without an increase in rates a very large number of railroad companies will face bankruptcy, and very few of those who escape this unfortunate plight can pay any return to the shareholders.

Director General Hines, in several public utterances, has seemed to assent to the principle adopted by the administration in 1918 of adjusting earnings to expenses. He has, however, indicated that the results of the roads in 1919 up to the time of his public addresses, could not be used as a basis for calculating the increase necessary.

For example, on May 6, 1919, in Washington, Mr. Hines said:

The present unfavorable results naturally lead to agitation of the question whether there ought to be an increase in rates. My own judgment is that the present conditions are too abnormal to serve as a basis for any general change in the level of rates and that it is preferable to defer action on that subject until there shall have been a fuller opportunity to get a more reliable, and possibly a more normal, measure of the conditions, meanwhile resorting to every practicable economy, studying the situation with the greatest care, and keeping the public fully informed as to developments.

And again, in St. Louis, on May 19th:

My own judgment is that there are too many temporary conditions to justify any definite action at the moment in increasing rates. We are going to get some additional economy in operation, a reduction in the cost of material, and undoubtedly a very large increase in business, and these things are going to operate to make the conditions more favorable.

And again, at Omaha, on June 10th, he said:

I have heard it stated a number of times, and I believe it is true, although I have not had an opportunity to check the figures, that when you consider the price paid for everything else, the values that are enjoyed by every article transported by the railroad, a given unit of any commodity will buy more transportation now than it ever did before in the history of the country. A ton of steel or a bushel of wheat or any other unit of any commodity will buy more transportation now than ever before.

The result of that is that freight rates at the present time, instead of being higher than ever before, are lower than before when tested by the value of the unit transported and the amount of transportation which that article transported will buy.

That leads a great many people to urge that there ought to be an immediate increase in rates in order to meet the situation.

I have had the experience, which is rather unique, of having various shippers come to me and urging that railroad rates ought to be increased to take care of this situation. I don't suppose that condition has ever

existed before in this country where the shipping public has voluntarily asked that the rates be increased.

This is by reason of the fact that there has been such a striking object lesson, that railroad costs have increased to much greater proportion than the rates have increased, and, therefore, the railroad operations are not likely to be self-sustaining in business with no increase in rates.

My position on that subject has been that it is important for us not to increase rates more than it is absolutely necessary, that it is very desirable for us to form a better idea than it is possible for us to form at the moment as to the extent to which the present deficit will be eliminated by the expected increase in business.

The railroad officers agree that it is very important not to increase rates any more than is necessary. This is a country of vast distances and complicated transportation conditions, and railroad officers appreciate as well as any class of men in industrial life the desirability of having rates adjusted so that continuous development will go on in the country. They also realize, as they never have before, that it is their duty to the public to take every reasonable step to have rates so adjusted that good service can be given to the public, good compensation to employees, and returns made to present and prospective owners of securities so that capital can be obtained for the necessary expansion of the plant.

Again, Mr. Hines, at Indianapolis, on October 15th, in commenting on the situation, said:

I want to say broadly without at the moment undertaking to go into detail that the railroads of the country at the present time are handling a larger business than they handled last year, and the business they handled last year was larger than the business they had handled in previous years. They are doing that at rates which represent a lower proportion of the value of the things transported than I believe has ever been true in the past. We know from experience that the price of nearly everything has gone up far more than the cost of its production has justified, but the price of transportation has gone up in less proportion than has the cost of producing it.

The Director General has also expressed the fear that any increase in rates that might be made by the government would be reflected in a further increase in the cost of living on the ground that those who sell various articles would add to the prices very much more than any increase in freight rates justified. An increase in the price of anything will, of course, have a bearing on the cost of living, but keeping the railroads on starvation wages will, in the long run, increase the cost of living because production and development will be checked through lack of suitable and adequate transportation for handling the necessities of life and industry. If an increase in rates be used unfairly to increase prices, it is surely a better national policy to check

that tendency by the force of public opinion or by law than to continue a policy which will mean a crippling of the transportation machine, making it unable to meet the needs of the public.

For the first nine month of this year, 108 out of 165 important companies and systems are not earning their fixed charges, entirely excluding, of course, any dividends on their stock or any contributions to improvements that formerly were made out of earnings. For the same period 130 companies are not earning their standard return; in other words, are not up to their pre-war earning power by \$286,000,000. Only 35 companies are earning their standard return, or bettering it, and that only to the extent of about \$41,500,000. These 165 roads failed by nearly \$57,000,000 to earn their fixed charges.

I think the following statements are sound:

1. That a day's pay, or a unit quantity of any article of commerce, will purchase far more transportation, both freight and passenger, to-day than ever before in the history of the country. In other words, rates have not increased in proportion to the increase in wages and prices of commodities.

2. That the results, as the year 1919 draws to an end, give no encouragement to the hope that rates, wages, costs and volume of business will produce a net operating income equal even to the standard return. The deficit may be \$350,000,000, and \$450,000,000 compared with the year ending June 30, 1917.

3. That the so-called "Standard Return" of \$935,000,000 (for all roads) does not represent a sum large enough to attract new capital needed for future expansion, and the net operating income for the year ended June 30, 1917, was \$1,035,000,000, or \$100,000,000 more than the standard return. Since then the plant has been increased in value and capacity and is fairly entitled to a much larger return.

4. That many millions of dollars must be spent in doing work on equipment and tracks that could not be done during the war period, and additional expenses must be met in 1920, such as higher prices for fuel and additional charges not included in 1919 accounts, and that there is a steady and large increase in taxes.

5. That a failure to obtain additional revenue will mean bankruptcy for many roads and serious financial difficulties for all.

6. That this condition will check the expansion of facilities just at a time when the country should be getting ready for an increased participation in world affairs.

7. That it is better for the country for the railroads to be supported through rates rather than by contributions from the state and national treasuries.

8. That the total additional revenue needed, while running into very large figures, is not large, considering the needs and powers of a virile nation of 105,000,000, that has absorbed \$21,000,000,000 of Liberty Bonds in two years. They can well afford to have a good Transportation Machine, and to encourage rather than to discourage the owners to create and maintain it.

For the purpose of making good the disparity between income and outgo that has grown up as a result of the conditions developed by the war, for the purpose of restoring the earning

power of the roads which has been impaired, for the purpose of establishing that earning power on a basis that will create a credit for the immediate upbuilding of the transportation machine, the railroads are now preparing to ask for an increase in rates. How much this increase should be I am not prepared to say to-night. It will require patient, careful study. The railroad officers have appointed a committee of eight executives, representing all parts of the country, of which I have the honor to be chairman. This committee is now actively at work taking preliminary steps in an effort to answer the question as to what "The Revenue Needs of the Railroads" are and how they can be obtained through suitable tariffs. This committee and its associates, I can assure you, are fully alive to the seriousness of the situation and of the position of trust they occupy in trying to solve the problem fairly in the interest of the public, the great army of employees, the very large number of owners, and the still larger number of people who are vitally interested because of their savings bank deposits and insurance policies.

I believe the sober judgment of the people will realize the justice of the request and will support it. Time is most important, and the help of such organizations as this with members of Congress and with regulatory boards will be most beneficial.

I hope I have made it clear to you that an increase in rates is absolutely necessary in order to meet "The Revenue Needs of the Railroads" so that they can do their full duty to the public, and that you can give your support to our reasonable requests for increased rates.

RAILROAD LEGISLATION

ALFRED P. THOM

General Counsel of Association of Railway Executives

UNDER the limitations of time which this occasion necessarily imposes, it will be impossible to discuss, except in the most general way, the railroad problem and the system of legislation appropriate for its solution.

From unmistakable manifestations of public opinion, it must be assumed that a system of governmental ownership and operation will not, for the present at least, be accepted by the American people.

Private ownership and operation being thus the only aspect of the matter (at least for the time being) open for consideration, the question is what system of governmental regulation shall be adopted in order to make railroad transportation, privately owned, supported and operated, a success and adequate to the needs of the public.

It is unthinkable that there can be any difference of purpose in this regard on the part of any of those charged with responsibility in the matter. Whatever difference there is must be a difference as to methods. All must agree that the system of regulation, whatever it is, must insure the adequacy and efficiency of transportation, for the capacity of the instrumentalities of transportation marks the maximum capacity of productive industry, and the public will never consent that productive industry shall be artificially limited by inability to reach the markets of the world.

It is important, then, to inquire what, broadly speaking, are the essentials of an adequate and efficient transportation system supported by private capital.

In the transportation crisis which now confronts the country, there are two periods to consider and provide for:

First, the period which must intervene between the end of Federal control and the time when such a relationship is established between revenues and expenses as to make the roads self-sustaining. This may be termed the "Period of Restoration"; and,

Second, the period succeeding the Period of Restoration, which may be termed the "Permanent Period."

As to the Period of Restoration, there seems to be general concurrence in the view that a means must be devised to assure to the carriers reasonably adequate revenues during this period and to arrange for the funding of their capital indebtedness to the Government. While differences exist as to how and the extent to which this shall be done, it is hoped that a just solution will ultimately be reached.

It would be difficult for the great facts of the situation to escape intelligent attention. The carriers have, for public purposes, been deprived of the use and management of their properties for two years. During that time their organizations have been disrupted; much of the traffic normally tributary to the individual lines has been diverted to others, and the rolling stock of each carrier has been scattered from ocean to ocean. In addition to this the labor expenses alone of the carriers as a whole have been increased during these two years approximately a thousand millions of dollars a year.

Time and money will be required to restore the individual carriers to the effective enjoyment of their several properties and to the efficient organization which is essential to success. I think it may be safely assumed that these conditions will be recognized and that some provision will be made to cover this Period of Restoration. I will not refer further to this aspect of the matter, but will turn my attention to the Permanent Period, and to the principles of regulation which should be adopted by the Government as a permanent policy.

If the transportation facilities which are adequate to-day would be adequate next year and for all times in the future, the problem would be comparatively simple. In that case it would be necessary to provide only for the maintenance and operation of the instrumentalities of transportation at standards of capacity and efficiency adequate for present needs. This could be easily done. But we live in, and must think and act for, a vast and fertile land which has not yet reached the limit of its development—a land which will grow for centuries to come in both population and in the products of its industry. This means that the capacity of transportation must grow so as to at least keep pace with—in fact, it should somewhat anticipate—the growing and expanding needs of commerce.

To provide for this will require the constant input of new capital. The amount of such new capital needed to insure the ade-

quacy of transportation facilities, was estimated by the late James J. Hill at not less, for a series of years, than one thousand millions of dollars a year. The statistics of the Interstate Commerce Commission indicate an actual input for each year of the nine between 1907 and 1916 of about \$579,000,000. The sum of about \$576,000,000 was actually expended for additions and betterments by the Federal Railroad Administration during the calendar year 1918.

Without undertaking to forecast the actual amount that will be required in the future, it is manifest, if transportation facilities are to be kept measurably adequate to the needs of commerce, that many hundred millions of dollars of new money must be provided each year by private investors. They must be attracted. They can not be coerced.

The problem, therefore, of the railroads, and the problem of the public in respect to transportation, is a problem of credit.

The test, which any system of governmental regulation of privately supported transportation facilities, must successfully stand, is whether it adequately provides for and maintains the necessary railroad credit.

If it does not, it must be changed or the system of private ownership must be abandoned; if it does, the system of private ownership will succeed. Let us look, then, at the question of credit from the standpoint of the private investor, for it is with him, in the final analysis, that the system of regulation must reckon.

When, under the existing system, he is approached with the proposal that he invest in a railroad enterprise, with what is he confronted? He is offered an investment in a business as to the revenues of which he has no control. They are controlled for him by governmental authority. Nor can he rely on the control being based on business principles. The standards of regulation are set by legislative bodies sensitively alive to political considerations and limitations. This is inherent in our system of government. Legislative action will always be responsive to public opinion, no matter how uninformed or misinformed. There can be no assurance to the investor that public opinion will be always governed by a broad appreciation of business needs and conditions.

Moreover, the investor can not be certain of a uniform or consistent standard of regulation, political or business, inasmuch as a part of his revenues are regulated by the national authority, and the remainder by the several states through which the roads

may run, with their inharmonious and divergent policies. It must, I think, be admitted that, as the system of regulation now stands, there is little on the revenue side to attract the private investor.

Turning to the expense account, the investor sees that he would have far less control over his expenses than in most of the other subjects of investment open to him. Aside from the peculiarly exposed position of the railroads in labor controversies, their expenses may be added to by governmental requirements as to facilities and service—the separation of grades, the enlargement of train crews, the enlargement and improvement of stations, the equipment of cars and engines, and many other matters legitimately subject to governmental regulation; and here, again, both the national Government and the governments of the several states, all, possess powers to increase the expense account.

Thus the expense account of the business to which the private investor must be attracted, is seen to be largely beyond the owner's control.

Without referring to other deterrent conditions—such as the hope he must abandon of speculative or large returns—if he embarks in this line of investment, and the positive attractions of competing subjects of investment which are free from governmental regulation, from political interference, and which are unrestricted in opportunities, let us turn to the things that must be done, if the policy of private ownership and operation is to succeed.

From what has been said, it is manifest that it is a condition precedent to any successful system of regulation that there shall be an assurance to the investing public of revenues to the carriers adequate to attract the necessary investment. The old system of unlimited and uncontrolled discretion in the Interstate Commerce Commission will not be sufficient. Congress has recently received from every investing source the assurance that this system has not prevented an alarming decline of railroad credit. This conclusion has been reflected in each of the leading plans proposed to Congress—in the Warfield plan, by subjecting the discretion of the Commission to a fixed statutory percentage on values as a guide to rates; in the Chamber of Commerce plan, by likewise subjecting the Commission's discretion to a permanent rule of a fixed percentage on values; and in the Railway

Executives' plan, by securing from an independent board, charged with the obligation to see that transportation facilities and service are at all times adequate, a certificate of the amount of revenue that is necessary that rates shall provide. In fact, it can not be denied that the conviction is widespread, and, outside of governmental circles, universal, that something must be added to the discretion of the Interstate Commerce Commission if the confidence of the investing public is to be attracted.

The railway executives, from advices which they can not disregard, apprehend that no fixed percentage on values can be adopted which will be adequate for the needs of the carriers; and, if a fixed percentage is adopted, it will be accompanied by other conditions which can not be satisfied without undermining the very foundations of all property. They, accordingly, have not seen fit to recommend a percentage figure in the statute, but have urged, and are urging, upon the attention of Congress the necessity for a rule of rate-making which shall be precise and definite, and shall contain a statutory assurance that the proper elements in determining what revenue rates shall provide, will be properly considered by the regulatory body, and the necessary amount of revenue will be raised. We do not think that there can be a legitimate doubt that the revenues, considered in respect to average conditions in a traffic group, should be adequate to provide (1) for the expenses of operation, including labor and taxes; (2) a fair return upon the property used or held for the public service; and, (3) a surplus sufficient as a basis of credit to attract the new capital needed for the facilities and service which the commerce of the country must have. We think, further, that, in the present condition of inadequate credit under the system of unrestricted discretion in the Commission, it is necessary to provide an authority whose express statutory duty it shall be to see that the facilities and service in transportation are up to the requirements of commerce; to study the credit of the carriers with reference to their needs in order that they may be able to provide these facilities; and to certify the facts to the Commission, which should take them as their guide in rate making.

If these requirements are put in the form of definite statutory duties, we believe that the administrative authorities will faithfully administer them, and, in doing so, will be supported by an express statutory mandate in providing the revenues declared necessary by the legislature.

We believe that all revenues must come from rates; that it is as much beyond the limits of constitutional regulation to make the rates too high for the service as it is to make the rates too low; and that no rate can lawfully be permitted to be collected which it is unlawful for the carrier performing the service to retain.

If the private investor is to be attracted, it is, in our judgment, necessary to avoid taking away any part of a carrier's earnings from lawful rates. To do so would, in our opinion, be unconstitutional. It is not proposed, however, to state here the reasons for that view.

If it is constitutional, it is all the more dangerous, for, in that event, there would be no relief from it in the courts. The thoughtful investor would, of course, appreciate that the consequence of the assertion in the law of a legislative power to take all of the earnings of a road at lawful rates above a limit fixed in the discretion of this Congress, would be that the next, or a succeeding, Congress might take still more, until the point of acknowledged confiscation is reached. The railroad industry would thus be the only industry subject, at the present time, to the assertion of such a power, and the question would be whether the investing public would seek the one subject in the field of industry where the amount of its earnings at lawful rates might be taken away at legislative discretion or caprice. To engraft this principle upon the system of railroad regulation would be to implant in it the seeds of its own death, because no industry can survive when it is thus discriminated against, and thus made unattractive to the investing public. It must be realized that while what has been said is justified even from the standpoint of rates, it is equally clear that, irrespective of rates, the proposal is both indefensible and destructive. For example, let us take two roads costing exactly the same amount and doing exactly the same business at exactly the same rates. One of these roads is well managed. The money spent upon it has been used in reducing grades, in eliminating curves, in acquiring engines with greater motive power, and in other directions which promote economy. The money spent upon the other has not been wisely spent. The *net* results of the two will be entirely different—the difference not being due to difference in cost, or to difference in business, or to difference in rates, but entirely due to difference in financial management, in wisdom of conception, and in operation. One may earn precisely the amount Congress will be willing for it to retain,

the other more. The proposal is to take from the better managed road all that it earns over a given figure, and reduce it to the dead level of the other. Outside of the question of law or morals, such a proposal would absolutely destroy enterprise, initiative and good management; and these elements of advantage to the public would be thus withdrawn from the public service.

May I not digress at this point to suggest that this principle would open wide the door to socialism? If the principle can be applied to railroads, which are now regulated by public authority, what answer can be made to the effort to apply it to any subject which may hereafter be regulated, such as fuel, the manufacture of essential articles, or even money? The rate on money is even now regulated by public authority. Is it not easy for the legislative authority to declare that the interest rate is made as high as it is out of consideration for those who have little money to lend and are thus weak financially, that it is too high for the strong, and that a part of the earnings of the strong at the legal rate must be "recaptured" and taken away? If the inequality of conditions as to the possession of money can be removed, then the dream of the socialist will be realized. Is it not essential that all those who value democratic institutions—based, as they are, upon equality of opportunity and security in the possession of the fruits of labor—should make emphatic protest against the new doctrine that would take these away, and should insist that the limit of legislative authority as to railroad rates is to safeguard the justice and reasonableness of the charge, and can not, without an overthrow of our institutions, extend, by any power, except that of taxation, to the taking of any part of earnings at lawful rates? The only basis for this novel assertion of power would be that a given amount of earnings is too large according to the existing standard of legislative discretion or caprice, and for that reason alone may be taken away. The consequences of such a doctrine strike at the very foundation of orderly government with limited powers.

Returning now to the railroads, and if, as above suggested, a method of securing adequate revenues is provided, the question arises as to where these revenues are to come from. It is manifest that they should not all be provided by any one class of traffic. They should not all come from interstate commerce, nor should they all come from the state commerce of these interstate carriers. No policy can be sound which does not properly

distribute the burden of raising these revenues equitably among all the commerce of the interstate carriers, state and interstate. How can this equitable distribution be made? There can be no assurance of equity if one authority fixes one class of these rates, and another authority, or many other authorities, fix the remainder. There must be some way of bringing the two together.

The constitutional duty and power to regulate interstate commerce rests upon the national Government, and that Government should be the authority to make the distribution of the burden of raising the needed revenues over all the traffic of the interstate carriers.

We are told that this cannot be done; and that, whatever the result, some other system than that of a single and homogeneous regulation must be provided.

What greater commentary could there be on the exposed position of the railroad industry? The national Congress, in all matters within its constitutional jurisdiction, represents all the states. It is not a foreign power. It represents all the states in the matter of their foreign relations, in the matter of providing for the common defense and of making war, in the matter of the establishment of a national currency, in all matters relating to imports and exports, and in providing and maintaining a system of post offices and post roads. It is also, by the Constitution, the representative of all the states in respect to the regulation of interstate and foreign commerce. Singularly enough, of all the powers above mentioned, it is only this power of regulating commerce which has been dissented from by any section of public opinion, and yet the necessity for establishing equality of commercial opportunities among the several states was the most potent and direct influence in bringing about and establishing the Union. The situation, just prior to the adoption of the Constitution, is thus described by Mr. Fiske in his "Critical Period of American History:"

"The City of New York, with its population of thirty thousand souls, had long been supplied with firewood from Connecticut, and with butter and cheese, chickens and garden vegetables from New Jersey. This trade, it was observed, carried thousands of dollars out of the city and into the pockets of the detested Yankees and despised Jerseymen.

It was ruinous to domestic industry, said the men of New York. It must be stopped by those effective remedies of the Sangrado school of economic doctors, a navigation act and a protective tariff.

"Acts were accordingly passed obliging every Yankee sloop which came down through Hell Gate, and every Jersey market boat which was rowed across from Paulus Hook to Cortlandt Street, to pay entrance fees and obtain clearances at the Custom House, just as was done by ships from London or Hamburg; and not a cart load of Connecticut firewood could be delivered at the back door of a country house in Beekman Street until it should have paid a heavy duty. Great and just was the wrath of the farmers and lumbermen. The New Jersey legislature made up its mind to retaliate. * * * Connecticut was equally prompt. * * * By such retaliatory measures, it was hoped that New York might be compelled to rescind her odious enactment. But such meetings and such resolves bore an ominous likeness to the meetings and resolves which, in the years before 1775, had heralded a state of war; and but for the good work done by the Federal Convention (in adopting our Constitution) another five years would scarcely have elapsed before shots would have been fired, and seeds of perennial hatred sown on the shores that looked toward Manhattan Island."

It was thus the states that insisted that an authority which represented them all should regulate commerce between them; for, as stated by Chief Justice Marshall:

"The Government of the United States is the Government of all; its powers are delegated by all; it represents all and acts for all. Though any one state may be willing to control its operations, no state is willing to allow others to control them."

It thus becomes not a violation of states' rights, but is essentially a *right of each state*, to have the instrumentalities of interstate commerce regulated by a governmental authority which represents all the states, and can establish a uniform standard of commercial facilities and opportunities, and not to be controlled by the narrow or selfish policy of a sister state.

For the reasons thus imperfectly and inadequately stated, it

The House and Senate Railroad Bills

A Digest and Comparison Prepared November 17, 1919, by Richard Waterman

Secretary, Railroad Committee Chamber of Commerce of the United States

The Chamber of Commerce of the United States has prepared for the information of its members the chart printed below showing the content of the bills. The most important provisions of the two general railroad bills are compared. The Each bill, H. R. 10463, was passed by the House of Representatives November 17, 1919, and at once sent to the Senate for action. The Cummings bill, S. 3298, was reported to the Senate October 22, 1919, by the Senate Committee on Interstate Commerce. It will probably be taken up for consideration by the Senate as soon as the regular session of Congress opens December 1, 1919.

The two bills differ in many important particulars. As soon as the Cummings bill is passed by the Senate the two bills will be sent to a conference committee, which will first harmonize the conflicting provisions and then report out a conference bill that will be passed by both the Senate and the House and then be sent to the President for his approval.

The Chamber of Commerce has also prepared the following brief summary of the principles of railroad legislation approved by the business men of the country in a referendum vote that was completed July 24, 1919. The summary, after stating a principle, shows in each instance whether or not it has been incorporated in one or both of the bills.

The principles approved by the business men in Referendum 28 of the Chamber of Commerce of the United States are as follows:

(1) Adoption of the policy of corporate ownership and operation with comprehensive government regulation. (*Senate and House bills.*)

(2) Return of the roads to corporate operation as soon as remedial legislation can be enacted. (*Senate and House bills.*)

(3) Adherence to the period of Federal control as now fixed unless and until the impossibility of making remedial legislation within this period clearly appears. (*Senate and House bills.*)

(4) Permission for consolidation in the public interest, with prior approval by government authority, in a limited number of strong competing systems. (*Senate and House bills.*)

(5) Requirement that railroad companies engaging in interstate commerce become federal corporations with rights of taxation and police regulation reserved for the states. (*Senate bill.*)

(6) Exclusive Federal regulation of capital expenditures and security issues of railroads engaged in interstate commerce with provision for notice and hearings for state authorities. (*Senate and House bills.*)

(7) Exclusive Federal regulation of intrastate rates affecting interstate commerce. (*Senate and House bills.*)

(8) Adoption of a statutory rule providing that rates in each traffic section shall yield an adequate return on a fair value of the property as determined by public authority. (*Senate bill.*)

(9) Creation of a Federal Transportation Board to promote the development of a national system of rail, water and highway transportation and the articulation of all transportation facilities. (*Senate bill.*)

SENATE COMMITTEE BILL.

The Cummings bill, S. 3298, introduced October 22, 1919, presents the recommendations of the Senate Committee on Interstate Commerce. It provides for:

Return of all railroad and transportation systems to corporate ownership and operation on the last day of the month, in which the act is approved.

Consolidation of all railroad properties in accordance with a plan previously adopted by the Federal Transportation Board, and approved by the Interstate Commerce Commission, into 20 to 35 separate competing systems, each owned and operated by a corporation, the stock of which shall be owned by the public, to be liquidated within 7 years, and, thereafter, to be compulsory.

Federal incorporation of all railroads with a requirement that each corporation shall have a board of directors, a majority of whom shall be representatives of the Federal Government.

Exclusive regulation and control by the Transportation Board of the issuance of securities of all railroad common carriers; and, of the purposes to which the proceeds of the sale of such securities may be applied.

Continuation of rates that are in effect at the termination of Federal control, until changed by competent authority. Provision that new rates shall be in effect after Federal control ceases, shall become effective within four months after they are so fixed, if approved by the Commission.

Requirement that the Commission shall divide the country into rate districts, and the railway carriers into rate groups as an aid in determining the adequacy of rates in producing revenue.

Regulation of all rates that affect interstate Commerce of maximum and minimum rates and joint rates and of the division of joint rates by the carriers, as a whole, in each rate-making system, and of the division of joint rates by the carriers, as a whole, in each rate-making system, and of the division of joint rates by the carriers, as a whole, in each rate-making system.

HOUSE BILL.

The Each bill, H. R. 10463, was passed by the House of Representatives, November 17, 1919, and sent to the Senate for action. It provides for:

Return of all railroads and systems of transportation to private ownership and operation, on the last day of the month, in which the act is approved.

Consolidation, unification or merger by purchase, lease, stock control, or in any other manner, of all railroads and systems of transportation, and the pooling of their traffic earnings or facilities, to the extent that the Commission indicates will be in the public interest.

Federal incorporation opposed, because it may be unconstitutional and would probably entail large expenses, long delays and a vast amount of litigation.

Exclusive and plenary jurisdiction of the Interstate Commerce Commission over the issuance of stocks, bonds and other securities by any common carrier, the purpose of any proposed issue and the use of the proceeds thereof.

Continuation of rates that are in effect at the termination of Federal control, until changed by competent authority.

Requirement that general increases in rates must be asked by the carriers within sixty days after the return of the carriers to private control.

Creation of regions for incorporation, administration and rate-making purposes, opposed, because it would be unconstitutional and would make rate-making based on average conditions of carriers within a given region an impossible task.

is submitted that, if a system of transportation supported by private capital is to succeed, it is necessary:

First, That revenues shall be provided sufficient to enable the carriers to efficiently perform their public duties, and, to that end, that a rule of rate making be established which shall express, as a plain statutory requirement, the elements that must be considered by the rate making power, and that the Commission, in making rates, shall be guided by the expert advice of a board specially charged with the responsibility of seeing that the transportation facilities and service are adequate to the needs of commerce, and with the duty of ascertaining and certifying to the Commission the amount of revenues the carriers need in order to provide them; and

Second, that the burden of providing these revenues shall be properly distributed by a single authority—which, in the nature of things, can only be the national Government—between all the traffic, state and interstate, of these interstate carriers, so that no class of traffic shall be unduly burdened, and no carrier shall be required to furnish service of any class at less than reasonable compensation.

In other words, we ask for a system of harmonious regulation, based on business principles—a system which shall not only contain the principles of correction and repression, but also the assurance of proper and adequate encouragement to those who lawfully engage in this basic and essential industry.

RELATION OF VALUATION TO INVESTMENTS

THOMAS W. HULME

Vice-Chairman of the President's Committee on Federal Valuation

I SUPPOSE the greatest act of discourtesy would be to deny the introduction of the host, and yet it is farthest from my purpose to talk upon fair value. There isn't any such thing as fair value. It is just value. It is because there has been so much talk of fair value in rate cases that we have all this confusion upon the subject today.

It is not my intention either to go into the many phases of the valuation problem, but rather it is my desire to suggest to investors that they should not accept what has been given out as valuations by various state commissions as representing the true value of their property. Nor should they take these reports that are being given out by the Interstate Commerce Commission, as representing value, because they are not even an attempt upon the part of the Commission to determine value. They are merely inventories or reports covering the investigations made by the engineering, land and accounting sections of the Commission of things that are to be taken into consideration in determining value.

To come directly to the subject which I have chosen to speak to you upon, the "relation of valuation to investments," we should have a common understanding of the terms "valuation" and "investment." The present investment is not necessarily what was originally put into the property. The corporate ownership may have changed hands upon a different basis; some portions of the physical property may have increased in value and some may have decreased in value. The Supreme Court of the United States has said that it is the property and not the original cost of it that is protected by the Constitution, and of which property the owner may not be deprived without due process of law. Therefore, as it is the property that is the investment, it means the investment is measured by the present value.

The determination of the value of property, i.e., of privately owned property, not in public use is ordinarily measured by what it would bring in exchange, usually determined by its earnings past, present, and prospective. But that cannot be the same when you come to deal with private property that is subject to

public use, because there regulation immediately enters and, to a certain extent, determines the result.

Now regulation cannot go to the extent of destroying the value of the property, nor can the owners of the property make such unreasonably high charges as to increase the value thereof. The problem, therefore, is how is this situation to be met? Where rates themselves are in question, the value cannot be determined by the capitalization of the net.

This problem, in the twenty-five years that it has been under consideration, has many times been before commissions and courts. Almost always, as the chairman stated, they have dodged the real determination. They have approached it from the standpoint of what seemed to them fair, but as the Constitution stands in the way of taking any portion of the property, without due process of law, they have called their conclusions, value. These conclusions, reached by many different commissions, without the determination of correct principles by the courts, because, as the chairman says—and I do agree with him sometimes—they have not been definite or have not been reached with courage, have left the matter in an uncertain condition until, perhaps, the present time when it seems to be clarified.

The court has said that the value of such property should be determined by the exercise of a reasonable judgment in the consideration of all the pertinent facts, including the actual investment if known, the present cost of production of the property, its condition, its earnings, both at the present time and under contemplated rates, and all other pertinent facts.

When these decisions have been made, it has not usually been known to which of these factors the commission has given the greatest weight, but it has been quite clearly shown that, while in the few condemnation cases, that is, the taking of the ownership of a public utility, it was not only the physical property that had to be paid for, but it was also the value of the business, the enjoyment of the business, that had to be paid for. Nevertheless, there has been generally a tendency to deny in a rate proceeding that the business had to be taken into consideration, but, in a decision by the Supreme Court of the United States in June of this year (the Denver Water Company case) it seems to be clearly decided that, even in a rate proceeding, consideration must be given not only to the bare bones of the property, but also to the business of the utility. That seems to be in accordance with com-

mon sense, because I think it is generally recognized that property is worth very much more after it has developed a business than it would be when it was first finished.

We, therefore, have, as I understand it, in the valuation of property privately owned but used for a public purpose, two major elements for consideration. First, the valuation of the physical property, next the valuation of the business, ordinarily referred to as "going concern" value; in the case of a private business not subject to Governmental regulation, it is commonly referred to as "good-will," although the term "going concern" embraces very much more than good-will. A local monopoly, such as water, gas or electric property, perhaps, cannot be said to have good-will, but a railroad where the business has been built up under competitive conditions, as most of these railroads have been, many of them, enjoy good-will, so that in some cases the good-will would be present; in other cases it would not.

Our first consideration, therefore, is the determination of the value of the physical property. Unquestionably the courts have held, in many cases, that the cost of reproduction properly applied is the measure of the value of the physical property. In the case of any normal property, i.e., one whose existence is justified, it certainly must be held that it is worth its cost of reproduction under a proper method. It is conceded that there may be cases of railroads and other utilities that have been constructed where they are not needed, and I except that class of property to my contention. But great care must be taken in such a classification of any property lest injustice be done.

Now, I am not saying that the cost of reproduction must necessarily be at present-day prices, but I am saying it must be upon reasonable conditions that would be generally acceded to as being reflective of a general situation; if, however, any governmental authority should attempt at this time, when we have probably reached a permanent level of higher prices, to take the property of such a company, there is no doubt in my mind but that in a condemnation proceeding the court would hold that the trend of prices has been so unmistakably to a higher level that the present-day prices would apply.

Therefore, I say to investors that the weight of the decisions of our courts are so unmistakably in the direction of a protection to them in a valuation proceeding that they should not be misled by proceedings in the past which have been made solely from the

standpoint of what somebody thought was "fair" to determine in a rate case.

What has been the effect of such valuations, such "fair" valuations? The unmistakable result has been to reduce the net earnings, to impair the credit until we have reached the present stage. Now, if the credit is to be restored, as Mr. Oldham and other speakers have said, it must be through an authority to increase the charges to a point where they will not only yield a return on the present investment, but also yield a return on the amount of money that it is necessary to provide for extensions and additions and betterments.

So frequently governmental bodies overlook that point in establishing their rate basis. They try to fix it on what has been sufficient for the past, overlooking the fact that provision must also be made for the new capital that is going into the property. If we have in the case of a justified property that the valuation of its physical property should be its cost of reproduction, provided that property has been properly maintained for the purpose for which it has been used, we then have to consider what effect in reaching the total or true value of that property must be given to its earning power. Earning power means potential, future developments and not merely the present basis of earnings.

There are many properties that are unquestionably worth more than their mere physical value. Where, over a considerable period of years, those properties have yielded a return upon the investment that is more than the usual interest rate, it must be recognized that those properties, because they have an earning capacity greater than the ordinary, must be accorded a value greater than their physical value. In such cases, where the rates under which their earnings are obtained are not in question, the value of the properties would be what you are accustomed to think them to be, the economic value.

Without any attempt to make a contention that there must be a minimum value, it must also be apparent that any road that is doing a great volume of business, even though in the past under regulation which has really been in an embryonic state—regulators have to learn just as great business organizations have to be developed—that, when this investigation is completed by the Interstate Commerce Commission, they will have at hand the information that will, I think, give the answer to what is called the present railroad problem.

This work of the Commission is probably the greatest economic task ever undertaken. It has been under way now for a little more than six years. It has cost over sixty millions of dollars. The mere inventory work will, according to the director in charge, be completed by the end of 1921. The Commission has refrained from attempting to determine the principles of valuation of this class of property until its work can be further advanced and until the Commission shall have before it some of the representative types of property. It has scheduled a hearing in January next for argument upon the subject. At that time, there will be presented to it the views that I have just expressed to you and which, if they should be successful before the Commission, will, I am sure, be a full measure of protection to your investments.

RECONSTRUCTION OF RAILROAD CREDIT

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IN discussing the railroad problem from the standpoint of credit, some facts are so obvious that they need only be stated. It may be safely assumed, for instance, that a permanent and satisfactory solution of the problem requires that railroads generally be placed in a position to meet the transportation needs of the communities which they serve; that the development and growth of the country will necessitate the raising of large amounts of capital to be expended for new tracks, terminals and equipment; that railroad earnings must be adequate to assure the maintenance of satisfactory credit and that issues of new securities must have a broad and ready market. It may be assumed also that large corporations will be better known in the financial markets, where large amounts of capital are available, than small corporations which in most instances will be but little known outside the localities in which they operate; that the larger corporations will have an advantage over the smaller corporations in raising new capital even though each, in its financial showing, measures up to the same standard of credit.

As the railroad problem is primarily a problem of finance, its solution must be sought along lines which recognize the need for corporations of sound credit and for corporations also with ability to raise new capital both readily and economically.

The critical condition of all railroad credit for a long time before the government assumed control of the transportation systems of the country is too well known to require extended comment. It is well understood that even the credit of the roads which were favorably located, well managed, and conservatively capitalized, had become greatly depreciated primarily because the margin of earnings required to protect dividend payments had become so small that discontinuance of payments at former rates at least seemed possible if not probable in many instances.

It is also understood that the credit of other roads was weak and uncertain because of over-capitalization, and in some cases even though capitalization was not excessive the amount of stock was too small and the amount of bonds and other obligations

was too large. Even had rates been sufficient to provide an adequate return on a fair and reasonable amount of capital, the disproportionate amount of stock to bonds and other obligations would still have left these railroads without sufficient credit to obtain capital on satisfactory and economical terms.

The credit of other railroads failed because of the unfavorable character of the territory served and the impossibility of making rates with a view to the special conditions under which they operated.

With the return of railroads to private management similar conditions will prevail unless corrected by remedial legislation. All of these situations must be dealt with adequately and comprehensively if the railroads generally are to have sound credit and are to be made self-sustaining.

For the purpose of determining the relative number and importance of the railroads whose credit has been affected by the several conditions outlined above, the railroads of the country have been divided into three groups.

The first contains the larger railroads which for many years have paid regular dividends. In this group are included 32 systems with a total gross operating income amounting to approximately 60 per cent. of the gross operating income of all the railroads in the United States.

The second group contains the larger non-dividend-paying roads. In this group are all of the railroads with a gross operating income of upwards of \$10,000,000 each, few of which have paid any dividends in recent years. It includes 24 systems with a total gross operating income amounting to approximately 30 per cent. of the aggregate earnings of the railroads of the United States.

The third group contains the remaining systems, the small roads. It includes approximately 100 Class I roads with earnings of less than \$10,000,000, and it also includes upwards of 250 Class II roads with earnings of less than \$1,000,000 and more than \$100,000. The group is made up of more than 350 individual roads but the aggregate gross operating income is only 10 per cent. of the total of the country.

As the dividend-paying railroads in the first group have demonstrated their ability to compete with each other under the same rates, it is fair to assume that the credit of these roads would be restored if rates were adequate to provide a satisfactory margin

over dividends, and, if investors had confidence that rates would be permanently maintained on such a basis.

A comparison of the statistics relating to the operation of the dividend-paying roads in the first group with the non-dividend-paying roads in the second, covering what is called the "test period"—the three years ending June 30, 1917—clearly indicates that the average traffic conditions are much the same in each case. The business is made up of substantially the same proportion of passenger and freight traffic. There is a similarity of tonnage, products of mines, forests, agriculture, manufactures, and other commodities representing about the same proportionate part of the total. The rate per ton per mile and the rate per passenger per mile are approximately the same. With maintenance adjusted to a uniform basis the cost of operation is relatively the same. Inasmuch as a similar volume of traffic handled at the same rates produces substantially the same operating income, it may be assumed that the plant facilities—track, equipment, and terminals—required to handle the business are likewise much alike in quantity and character. In view of the fact that the cost of operation is not materially different in the two cases—if the capitalization were proportionate to earnings—the return on capital would necessarily be substantially the same. It may be said further that the relative value of individual properties arrived at by using the market value of securities, under normal conditions, will be found to approximate very closely results obtained by capitalizing earnings.

In the absence of definite information in regard to the value of the railroads of the country a valuation based on earnings or market value of securities, where traffic conditions are similar, appears to offer a better gauge of the relative value of individual properties than the property investment accounts of these companies, even though the aggregate of these accounts may be accepted as representing the best basis of value for the railroads considered collectively for rate making purposes.

The average conditions under which the railroads in these two groups operate are substantially alike; from a traffic standpoint neither group is "more favorably situated" or "less favorably situated." The difference is largely the amount and form of capitalization, and this difference is reflected in the statistics, especially those relating to fixed charges and dividend payments. Using, for example, figures which cover the Western and South-

ern districts only, the railroads in the first group required on an average a sum equivalent to approximately 23 per cent. of gross earnings to pay fixed charges and to maintain dividends. This total was apportioned approximately 12 per cent. for fixed charges and 11 per cent. for dividends. The railroads in the second group, on the other hand, while paying out substantially the same proportionate part of gross earnings for fixed charges and dividends—the sum being equal to 22 per cent.—nevertheless, required 21 per cent. for fixed charges leaving only 1 per cent. for dividends.

For the purpose of illustration, these statements have been reduced to figures in a comparison of the dividend-paying and non-dividend-paying roads in the Western and Southern districts. The roads in the Eastern district are not included, but similar comparisons produce similar results.

*Per Cent Which Roads in This Comparison Bear to Whole in
Southern and Western Districts*

	<i>Per Cent. Mileage</i>	<i>Per Cent. Gross Earnings</i>
Group 1.....	58.8	63.5
Group 2.....	29.5	27
Total of Groups 1 and 2	88.3	90.5

Per Cent. Gross Operating Income Distributed

	<i>Group 1 (16 roads)</i>	<i>Group 2 (16 roads)</i>
Operating Expenses and Taxes.....	41.9	44.5
Maintenance (Adjusted to uniform basis).....	28.3	28.3
Net Earnings	29.8	27.2
Other Income	1.5*	1.5
Total Net Earnings.....	31.3	28.7
Fixed Charges.....	12.3	20.8
Dividends	10.5	1.1
Total Fixed Charges and Dividends	28.8*	21.9
Surplus	8.5	6.8

*Allowance has been made for the difference in receipts from outside income by reducing the amount of outside income of the Group 1 roads from 6.2 to 1.5 to compare with the amount received by the Group 2 roads and deducting a corresponding amount from the amount of charges and dividends proportionally divided between the two.

Per Cent. of Gross Revenue

Passenger Revenue.....	21.3	20.9
Freight Revenue.....	69.5	69.3
Miscellaneous Revenue.....	9.2	9.8
Passenger Rate per Mile.....	\$.02040	\$.02280
Freight Rate per Mile.....	\$.00806	\$.00840
Tons per Train.....	503	413
Gross Earnings per Mile.....	\$11,309	\$ 9,591

Classification of Tonnage

	<i>Per cent.</i>	<i>Per cent.</i>
Agriculture	20	17.1
Animals	4	3.4
Mines	39.8	39.4
Forests	14.5	16
Manufactures	14.3	17
Miscellaneous Commodities.....	2.2	2.5
L. C. L. Goods.....	5.2	4.6
	<hr/> 100.0	<hr/> 100.0

Figures for operation cover test period, July 1, 1914 to June 30, 1917.

Figures for tonnage cover year ending June 30, 1916.

As the railroads in the two groups operating under the same rates, with a valuation or capitalization based on earnings, would earn substantially the same return on their investment or capitalization, each would be entitled to the same credit, if the capitalization were similarly divided between stocks and obligations. With adequate rates and some adjustment of capitalization on the part of the railroads in the second group, the credit of the railroads representing approximately 90 per cent. of the railroad business of the country would be placed on the same credit basis and on such a basis that the securities of the larger systems would command the confidence of and be attractive to investors.

To establish the credit of upwards of 350 small roads by any method of rate making presents a difficult if not impossible problem, if the roads are to continue to operate independently. These roads for the most part are at a disadvantage from a traffic standpoint with the larger systems and may be termed properly "less advantageously situated." They occupy a less

favorable field for operation and yet are obliged to handle their business on a basis of rates made more largely with a view to the conditions surrounding the more favorably situated roads. Attention has frequently been called to the fact that rates cannot be made with a view to the specific conditions surrounding the less favorably situated railroads which represent but a small part of the transportation systems of the country without providing too generous a return for the large majority of roads which are more favorably situated. This has frequently been referred to as the problem of the "weak" and "strong" roads and the different methods of meeting this difficulty have been an essential feature of most of the plans which have undertaken to deal with the railroad problem. It may be said further that even if rates could be made which would enable these small companies to make a satisfactory financial showing, their securities would have such a narrow market that financing would be difficult and expensive, if not impossible in many cases.

The proposal made in some of the plans—and this has met with some favor—to make advances to weak roads from a fund accumulated from the surplus earnings of the more favorably situated systems, is in itself an acknowledgment that these roads are not expected to be placed in a position to maintain themselves in independent operation.

The most practical plan which has been suggested for taking care of these roads in such a way that the territory which they serve will be assured of adequate railroad facilities is by merging the smaller with the larger systems with which they have natural traffic relations.

Consolidation with the strong systems may also provide the surest and most effective way of meeting the problem of the roads whose credit is poor because of the form of their capitalization. Consolidations would facilitate the reorganization and adjustment of the capitalization of these companies and put them in a position to obtain the capital necessary to meet the requirements of the territories which they serve. It may be assumed that these mergers would take place on a basis which would represent fair relative values and in the process of consolidation capitalization would be so adjusted that the credit of the strong systems would not be impaired.

A brief statement covering the number of existing railroad systems which operate independently will show that a substantial

part of the railroad business of the country is already concentrated within a relatively few systems and if the existing large systems were used as a basis for such further consolidations as might be desired, the result would be accomplished without seriously disturbing present relations. The railroads of the United States have been classified by the Interstate Commerce Commission as Class I and Class II roads. The Class I roads include all the railroads, 177 in number, whose gross operating income equals or exceeds \$1,000,000 annually. The roads represent approximately 97 per cent. of the railroad business of the country. The Class II roads include all the railroads whose gross operating income is over \$100,000 but less than \$1,000,000, and while larger in number, they represent only 3 per cent of the business. Eighty-seven of the 177 Class I roads are controlled through stock ownership by 45 systems. The earnings of the 45 systems, together with the earnings of the controlled roads, amount to \$3,210,256,842, or 96 per cent. of the total earnings of the Class I roads, and 92.8 per cent. of the mileage.

The problem of further consolidation would thus narrow down to the means of absorbing the numerous small systems and such further mergers as might be desirable and necessary among the 45 systems.

A careful consideration of all the circumstances which are involved in meeting the large financial requirements of the railroads leads to the conclusion that railroad credit as a whole will be established on a safer and more satisfactory basis, and capital will be made more certainly available and at less cost, by consolidating existing railroad companies into a few large competing systems along the lines proposed by the Cummins Bill. This method has received the endorsement of the Transportation Conference representing the United States Chamber of Commerce, and the principle was approved by the Counsel of the Association of Railway Executives in his testimony before the House Committee on Interstate and Foreign Commerce.

A policy of railroad consolidation along these lines is not a new policy; it is a policy consistent with the practices which have been followed in developing the transportation systems of the country to their present form. All the large railroad systems represent the merging of many railroads, some strong and some weak, with the result that these systems represent average conditions and, where they compete in the same territory, show aver-

age operating results. The consolidations which have taken place in the past, for the most part, have been an advantage to all interests concerned. By this means railroad service has been extended and improved and financing has been more economical than if the various railroads constituting these systems had remained in independent operation and each had been obliged to finance its own requirements. Whatever difference of opinion there may be as to methods, no plan will prove a success which does not further strengthen the credit of the strong roads, and establish credit for the roads heretofore weak financially, whether the weakness is the outcome of unfavorable operating conditions or a failure to observe sound standards of capitalization. On no other basis will the railroads individually and as a whole be able to meet the requirements of the country for adequate transportation.

PENDING CONGRESSIONAL LEGISLATION AS AFFECTING OWNERS OF RAILROAD SECURITIES

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ON November 12th a statement appeared in the press signed by the chief executives of organizations of railroad workers, including three of the four principal brotherhoods. This statement, in denouncing the labor clauses of the Esch Bill, characterized it as a "conscienceless betrayal of the public interest;" that "it validates twenty billion dollars of railroad securities, at least eight billions of which is water;" that it caters to "Big Business" and that generally the measure is "vicious."

The statement continued: "This travesty on legislation reveals the fundamental weakness of all schemes to return the roads to their former owners. The fact is that private ownership of the means of transportation has broken down. . . ." That "apparently our statesmanship is as bankrupt as our railroads. . . ." That "the railroads should be held under federal control for at least two years," and in respect to government ownership it said that "labor is willing to accept the sober judgment of the American voters as expressed at a general election."

Esch Bill Stripped of Revenue Provision

Since this statement was made, the Esch Bill has passed the House stripped of the provision which the Committee of the House that framed the bill thought would enable rates to be made which would ensure sufficient revenue properly to operate the railroads. The defeated section read thus:

"In reaching its conclusions as to the justness and reasonableness of any rate, fare, charge, classification, regulation, or practice, the Commission shall take into consideration the interest of the public and the shippers, the reasonable cost of maintenance and operation (including the wages of labor, depreciation, and taxes) and a fair return upon the value of the property used or held for the service of transportation."

Under the bill as amended and passed the inefficient rate laws

stand as at present constituted, with the wage dispute adjustment provision incorporated therein demanded by the chief executives of the brotherhoods.

The failure of a rate-making formula to pass the House substantiates our contention that the Act should *definitely* interpret what a "reasonable" rate means by naming the minimum and provide for a maximum return from such rates, as the only practical legislative solution of the railroad problem. Definite directions in the act in respect to these essentials are as necessary to satisfy the demands of the public, the apprehensions of the shippers and the caution of Congress as it is to be certain that the railroads will be enabled to give adequate service, as a whole, and finance themselves. To state that rates shall be made that will "produce reasonable return" adds nothing to the bill or to the present law that has not been considered by the Commission in the past in making rates as pointed out by Commissioner Clark at a hearing before the House Committee.

The specific charge in respect to railroad securities made in the statement by the organization of railroad workers referred to requires answer. The charge is that the Esch Bill (before amendment), clearly meaning any legislation giving financial protection, "validates approximately twenty billion dollars of railroad securities, at least eight billions of which is water, and directs the Interstate Commerce Commission to tax the American people through an increase in freight and passenger rates to pay dividends on those 'shadow dollars.'"

Any such characterization of railway value is untrue and is but one of many evidences of a deliberate determination by violent terms and action to attempt to coerce and demoralize Congress so that no constructive railroad legislation shall pass. By these irresponsible representations as to values and denouncement of the Congress where they say "statesmanship is as bankrupt as our railroads," and by abusive criticism of proposed legislation inconsistent with their own, those issuing the statement have apparently succeeded in defeating the meagre financial provisions in the Esch Bill, and hope to destroy the enterprise which employ the men they purport to represent in order that they may gain its possession.

The reckless charges in respect to the value of the securities of the railroads are but a repetition of similar misstatements in connection with railroad legislation which for months has been

before committees of both the Senate and the House of Representatives.

Property Accounts Represent Less Than Aggregate Value

The property investment accounts of the railroads have been under the close supervision of the Interstate Commerce Commission only since 1907, yet within the short intervening period of twelve years the records show that more than six billion dollars of cash expenditure has been made on the properties of Class I railroads, over one-third of the seventeen and a half billion dollars total property book value of these roads, exclusive of inter-company securities (as of the test period 1915-16-17). I am speaking of property value not security values or issues. No well-informed person will contest the statement that *in the aggregate* the properties and equipment devoted to the public use of Class I railroads (89 per cent of the total mileage) are worth more in the aggregate than the seventeen and a half billion dollars, as shown by the books of the railroads.

But whether this be true or not true, the billions of alleged "water" and "shadow dollars" are effectually provided against in Section 6 of the Cummins Bill, now awaiting action by the Senate.

The importance of the provisions of this section of the Cummins Bill as the minimum essential to the continuance of the development and prosperity of the country cannot be too strongly urged upon Congress, upon the shipping interests and the public. It now stands alone between a successful transportation system privately owned and operated, and a government system, how operated you cannot know.

Fair Value of Railroads Taken as Basis for Return

The effect of Section 6 of the Cummins Bill is to provide that, pending actual physical valuations of all railroad properties, the Interstate Commerce Commission, taking into consideration all the elements that should properly be considered, shall determine the "fair value" of the property and equipment of the railroads, in the aggregate, in each rate group. For the purpose of determining and adjusting rates so that they will yield a living and fair return, the Commission shall group the roads (as they have done in the past for a similar purpose) into as many groups as they may decide. Upon the aggregate amount of the investment in or "fair value" of all the railroads of each group a

level of rates shall be established that will yield "as nearly as may be" $5\frac{1}{2}$ per cent. on this aggregate value, plus one-half of 1 per cent. at the discretion of the Commission, for unproductive improvements, which in the case of those roads earning over 6 per cent. on value determined as stated—not on securities—shall not be capitalized for future rate making.

Earnings that may be made by any railroad in excess of the 6 per cent. (on value) and up to 7 per cent. are divided one-half to the railroad earning them as incentive, the other half to be used as a national fund administered by a government authority in the interest of transportation as a whole, for joint terminals and other joint facilities, or for cars and equipment to be leased to roads to relieve congestion, but not to be capitalized in future rate making. Thus there is a division of excess earnings beyond the given reasonable return on "fair value," between those who use the railroads and those who own them. The one-half of the excess which goes to the road earning it is credited to a reserve account to be used, under specific conditions, to enable it to meet financial obligations and in lean years to provide against deficiencies which might impair its obligations to the public. After 7 per cent. is earned by any road the ratio of division becomes one-third to the railroad earning it and two-thirds to the transportation fund.

*Section 6, Cummins Bill, Provides Against So-called
"Watered Securities"*

Under Section 6 of the Cummins Bill, *the aggregate value* of the roads of the respective groups is taken. Rates are based on such value, without respect to the amount of securities which may have been issued by any railroad. Since the public and shipper would pay only a reasonable return on the value of each group of railroads as determined by public authority and get back part of what they pay to maintain transportation as a whole, in the use of the facilities purchased from the general transportation fund created from excess earnings, the misrepresentations that have been made and the clamor of the past that the public pays returns on false investment would end. If this section of the Cummins Bill becomes the law, the idle talk about paying or earning "dividends" or a return on "watered securities" and "shadow dollars" will cease and private ownership and operation will be permanently established.

Many railroads will not earn as much as the $5\frac{1}{2}$ or 6 per cent. on their *individual* property and equipment which would go to make up part of the aggregate of the railroad property in their respective groups. Rates being made on the *aggregate value of all* the property of a *group*, each railroad earns on its *own value* as much as it can secure through efficiency in operation and management. So a railroad that is overcapitalized in securities suffers in the percentage return it would receive on *such securities* because the return is based on the "fair value" of its *property and equipment*. No greater incentive could be given to each railroad than to require that its earnings from rates made on the aggregate value of *all*, shall depend entirely upon its own efficiency, and not upon a guaranteed *amount* to each or a government guarantee *security*. Those roads that earn over 6 per cent. on the value of their property have the incentive to make the earnings in excess thereof as great as possible, because they retain one-half of such excess between 6 and 7 per cent. and one-third after 7 per cent. So there is no *guarantee* of any description, directly or indirectly, given. Rates are made that would yield the stated return on the value of the transportation system *as a whole* and no two roads will necessarily receive the *same percentage* return, because each earns on its *own value* what it can from rates made for *all*, the leveling is accomplished through the regulation of earnings in excess of the percentage return.

Director-General Hines' Prediction

The Esch Bill now passed by the House does not contain, nor did the unamended bill contain, any permanent financial provision for the railroads. It does not nor did the original bill provide for the regulation of excess earnings, essential to produce a uniformly efficient service throughout our transportation system. Such regulation becomes necessary because railroads that serve dense traffic territory can earn more from a rate than those serving sparsely settled territory, and the latter constitute the majority of the railroads (Class I). You cannot make rates that will suit all the railroads alike. A rate level that will enable the great majority of railroads to live must necessarily produce more earnings to roads serving dense traffic territory than such roads are entitled to have and more than they would receive but for the necessities of the majority. The Commission in the past has hesitated to allow rates that will give to a few favorably situated

roads inordinate earnings which the shippers and public served by these roads have repeatedly declared they will not stand for. Yet such a result is unavoidable under present laws if regard is to be had for the life of the majority which constitute those roads not so favorably situated as the few. The result has been that the Commission could not make rates that were necessary to the majority, so the railroads and the public have both suffered the consequences. Should this continue? If it does, Director-General Hines' prediction will come true when he said that—

The plan of private management necessarily involves the idea that if one or many railroad companies happen to be exceptionally prosperous, the entire exceptional profits remain with the railroad company. This condition, continues Mr. Hines, *will make the public always fear or suspect that it is being exploited through the transportation service for the benefit of private capital* and will lead to continual insistence upon the railroads being operated exclusively for the public benefit *through government ownership and operation.*

Mr. Hines recognized the necessity of excess earnings regulation.

Crux of Railroad Problem Solved by Section 6, Cummins Bill

At a hearing before the House Committee which framed the Esch Bill, in reply to a member of the Committee who after repeating substantially the provision relating to rates *then in the proposed bill*, whether such provision would change the past methods of the Commission for making rates, Commissioner Clark, a member of the Interstate Commerce Commission and Chairman of their Legislative Committee, stated that "it would not change it in substance, *because all of those things are now considered.*" In like manner, Commissioner Clark, when questioned upon the advisability of providing in the act a fixed percentage return on value ascertained by public authority which, as we have shown, carries with it regulation of excess earnings, stated, "*it would avoid endless controversies (and) it would put an end to interminable discussion and argument.*"

There is no higher type of man than the men who occupy responsible positions in the service of the railroads. From the locomotive engineer to the man who walks the track I do not believe one of them if fully informed would look for fairer protection to themselves and the public than is provided by Section 6 of the Cummins Bill. Shippers and the public are vitally concerned in this section, for unless adequate revenue is provided

for the railroads, now only to be had through definite requirements of a fixed return with a division and regulation of earnings in excess thereof substantially as Section 6 provides, their railroad service will break down, for another opportunity will not be afforded them for securing constructive legislation, and Government ownership will be forced upon them.

Whether all the existing railroads shall be ultimately forced to consolidate into twenty-five or thirty-five or two or three larger companies, or whether consolidations are made permissive (which we favor), it will require years of valuation, bargaining, and litigation in the case of the former, and considerable time in the case of the latter, so this is not the immediate issue. The crux of this problem lies in whether the principles laid down in Section 6 of the Cummins Bill are to be enacted into law as the only means to save the railroads on the termination of the proposed six months' extension of the standard return; or whether they shall be turned back to their owners loaded with debt, many of them, their traffic disrupted as the consequence of the necessary unification plans of the government incident to the war, with nothing to rely upon but the same regulating laws and procedure of the past, nothing definite upon which they can depend. Any legislation embodying substantially what is now on the statute books, though it may contain added verbiage, will fail unless it empowers the Commission to adjust rates through the regulation of excess earnings of a comparatively few railroads, and to a fair and reasonably fixed initial return to all.

Section 6 of the Cummins Bill is a constructive step in recognizing that the impossible conditions which existed in the past between the shipper and the carrier must be stopped that the business of transportation may be carried on in a business fashion. The mandate by Congress to the Commission comes as near producing an automatic adjustment of rates as possible, and will avoid the "endless controversies" (and) "interminable discussion," as characterized by Commissioner Clark.

*Securities Association Largest Organized Group of
Owners in Existence*

The National Association of Owners of Railroad Securities represents the largest single organized group of railroad securities in existence. They come nearer as an active force being the owners of the railroads than any other single organization. It

is not unreasonable for some of them at least to think that they should be listened to in respect to legislation by the operating heads of railroads that have sold them the securities they own, particularly when such legislation is financial. They find themselves opposed by a few executives who, in the name of their Executives Association, beginning with opposition to our efforts in securing adequate protective clauses in the standard form of government contract when the roads were taken over, are now in open hostility to the one thing the Securities Association chiefly stands for, namely, the principles involved in Section 6 of the Cummins Bill. The owners of the great majority of the outstanding securities of all the railroads find themselves in the unfortunate position of being called upon, through this Association, to defend their securities from attacks, when they had at least the right to expect that the presidents of the railroads that issued such securities should cooperate to secure the legislation the owners believe to be necessary. But these few executives in the name of and exerting the influence of their "Association of Railway Executives," though many executives of the member roads are not in sympathy with such action, are attempting to defeat the purposes of Section 6 of the Cummins Bill, the only constructive railroad legislation offered in years, and thereby find themselves unable to offer assistance. Their campaign in some instances is as misleading as that of the framers of the statement attacking the Esch Bill, and they are lending them assistance in establishing conditions which will not only work injury to those they are supposed to represent, but will eventually lead to government ownership. Their attitude is illustrated in a letter (among others received) from one of the prominent railroad presidents of the country. He asserts that the Executives Association is "dominated by certain interests who are largely responsible for the past and present difficulties of the railroads. In the present instance the Bourbons are running to form."

The Association believed the time had come when all that could be expected is a fair initial return with sufficient in addition above that return to preserve the incentive essential to efficient service. Inherent traffic and territorial difficulties demanded that the regulation of these properties must extend to the earnings in excess of this fair return. In the light of the experience of the past, we wish to see an end put to the "interminable discussions" as to rates that have occurred in the past before

the Commission, and the owners of the railroads should be willing to make sacrifices to secure it.

Dangers in the Situation

Millions of citizens, depositors in mutual savings banks and owners of policies in the great mutual life insurance companies, are represented through their companies as members, as are also those represented by investing institutions generally, all owning vast amounts of railroad securities and are vitally concerned in the pending legislation.

The propaganda being spread throughout the country aimed at the defeat of all railroad legislation, unless a partnership is created by Act between the brotherhoods and the government under government ownership, means that all the political force they can muster will be used against members of Congress who decline to accede to their demands.

Representatives in legislative bodies should be brought to feel that they are not to be left to be beaten because, without fear or favor, they fulfill their obligations of office. Unless these conditions are recognized our institutions will be seriously impaired. There is every indication that the public expects to see the railroad problem solved and settled permanently. Anything less than the requirements of Section 6 of the Cummins Bill will not meet their expectations.

The rank and file of the employees of the railroads, when made conversant with actual conditions, cannot sanction the methods being used to defeat constructive legislation which will solve the railroad problem, with due regard for all interests and classes. The rank and file should know that in the division of excess earnings our original proposal was that any excess over the fixed initial return should be divided one-third to the railroad earning such excess, one-third to a fund in the interest of railroad employees and one-third to the national fund created to be spent in the interest of transportation. The Brotherhood chiefs opposed this, they did not favor the employees having a participation in earnings under private ownership. So this was abandoned.

The time has arrived when the trustees of those representing the great mutual investing institutions should have their dependents know the extent to which this propaganda and these purposes have reached, and what it means to the thirty-three million holders of life insurance policies, to the millions of depositors in

savings banks, to individual investors and others. We live under a partisan political government, and unless those who represent these millions of owners meet the situation by giving support to those public servants who strive to do their duty, a small minority of the electorate, through the propaganda now being spread throughout the country, will bring about the destruction not alone of the rights of property, but the very foundation of our Government.

THE PRICE OF PRIVATE OWNERSHIP

PIERPONT V. DAVIS

Vice-President National City Company of New York

ABOUT ten days ago the organization with which I am connected offered a million and a half of the ten year 6% bonds of a strong industrial corporation. In less than one hour the issue was absorbed and we had orders which we could not fill for another million. Last July a syndicate in which we joined offered an issue of ten year 6% obligations of one of the few railroad companies which has prospered during Federal control. After five months' effort the bonds are not yet entirely sold, while the price has fallen below that which the railroad company itself secured. On the first day of November an absolute first mortgage railroad bond, generally conceded to be perfectly good, matured and yet was not paid off in cash but was forcibly extended for three years because of the bankers' conviction that investors would not purchase at this time a re-funding issue.

Is it not something of an anomaly that a 5% railroad stock, such as the New York Central, which has paid dividends for 50 years, should sell at a discount of 25 per cent. at the same time that an industrial stock like Baldwin Locomotive, receiving no dividends, sold at a premium of 50 per cent.; and when an 8% industrial, Underwood Typewriter, sells at 180, and a 7% rail, Great Northern, sells at 85?

From my knowledge of the bond market, I believe that owing to the present attitude of the investor, the successful flotation of new issues is impossible to all but a very limited number of railway companies. This preference on the part of investors for the securities of industries not subject to public regulation is one of the most pronounced characteristics of the market at the present time.

Opinions differ as to the causes of this discrimination. It has been alleged that the depreciation of railroad credit has been caused by statements made by railroad executives themselves and that the Interstate Commerce Commission has no responsibility therefor. To believe this is to confuse cause and effect. I do

not think railroad credit has been talked down any more than I believe we can talk it up now. A railroad company's performances outweigh a railway president's speeches when credit is in the balance. There is nothing artificial in the deterioration of railroad credit. It reflects the insufficiency of net revenues.

In the ten years ending in 1910 the carriers of the country earned an average of 5.25 per cent. on their investment. Only in the post-panic years 1904 and 1908 did the return sink below 5 per cent. With the exception of 1908, very little mileage was in the hands of receivers. The willingness of investors to purchase more than one and a half billion of new railroad stocks at par or higher is striking evidence of the public confidence then prevailing. With the adverse rate decision of 1910 confidence began to wane. In the next five years the return on railway investment averaged only $4\frac{1}{2}$ per cent. and during 1914 and 1915 was very little better than 4 per cent. Few partnership risks were accepted by investors in this period and many thousand miles of road were operated by receivers. After 1915 came the rapid increase in traffic, making the results of 1916 and 1917 unusually good. But investors, realizing that those earnings were due to war conditions, properly enough, had little faith in their continuance. So while it is true that the rentals which the companies are guaranteed under Federal control are based on the highest average earnings ever received in any three-year period, railroad credit is not responsive; the distrust created by the low level of earnings in the pre-war years cannot be expunged by two years of good earnings since they resulted from an abnormal state of trade.

But $4\frac{1}{2}$ per cent. represents affluence in comparison with the present earnings of the carriers. Were the Government to return the properties to their owners today without making provision for an extension of the Federal guarantees, or for an increase in rates, over 87,000 miles of railroad would presumably pass into the hands of receivers since these roads are not now earning their fixed charges. Nearly seven billions of capitalization would be involved in the crash. The dividend distribution on the stocks of other companies, aggregating one billion, one hundred million dollars, would forthwith be reduced or passed. Fortunately, Congress seems fully awake to this danger and is prepared to furnish a bridge, in the form of the extension of the Federal guarantees, until firmer ground is reached.

Another factor has aggravated the difficulties caused by low earning power. Money was much cheaper prior to 1910 than it has been since. The Pennsylvania Railroad Company, for example, borrowed \$100,000,000 in 1915 at about $3\frac{1}{2}$ per cent. In 1917 it paid $4\frac{5}{8}$ per cent., and in 1918 approximately $5\frac{1}{4}$ per cent. Very few companies have borrowed long term funds since 1911 as cheaply as $4\frac{1}{2}$ per cent., and yet, since the average productivity of the total railway investment was only about $4\frac{1}{2}$ per cent. between 1911 and 1915, it follows that the owners of the properties were actually penalized for placing new facilities at the public service.

The railroad problem presents many sides, but underlying the whole difficulty is the question of credit. During the history of transportation there have been times when the relations between the railroads and the shipper and between the public and the roads have been none too cordial, but the identity of interests is today well understood. It must not be forgotten, however, that this identity of interests does not exist in the case of the investor. If he is not satisfied with the treatment he receives he will seek other fields. While he has already furnished the money for enormous additions and betterments to the railway plant we want him to supply a great deal more.

It is often said that the railroads need a billion dollars a year; the latest estimate, I observe, is two billions. We will keep our thinking straighter if we say that it is the public which needs these billions put into the railways. Failure to obtain new capital will react more disastrously on the public than it will on the carriers.

How can cordial relations be reestablished between the railroads and the investor? The demand for new capital throughout the world is now, and will be for some years to come, in my judgment, in excess of the supply. Competition for it promises to be so keen that if we expect the railroads to secure their share we must be more than merely just; we must be generous in our treatment of them. This is the first and most important step in reestablishing relations. I believe this can only be effected by assuring the roads net revenues of not less than 6 per cent. on their investment. While an average of $5\frac{1}{4}$ per cent., as I have already pointed out, met the situation a few years ago, it will not be liberal enough today when we take into consideration the present increased cost of capital, as well as the need of overcoming the hesitation or distrust of the investor. To give the carriers 6 per

cent. would mean the addition to net revenues of slightly more than \$100,000,000 over the average of the test period. Twelve times this sum has been added to the pay of railway employees since the Government assumed control.

It is far easier to injure credit than to restore it, so we must not think that merely a friendly act of legislation is going to heal instantly the injuries that have accumulated in the past nine years. Indeed, some critics believe that credit is injured so mortally that only a government guarantee endorsed on securities will restore it to life. With this view I do not concur. I do not think the investor demands a guarantee but he will expect that those who determine how much his railroad shall receive for what it sells shall also accept responsibility for what it costs to produce it. There have been too many instances of running railroads with bondholders' or shareholders' money. The cost of railroad operation should be paid for by those who use railroad facilities, not by those who built them. If an arbitration results in an award of increased wages it ought to mean increased rates, not decreased dividends.

Senator Cummins fully appreciates that any remedial legislation must tender the investor reasonable security of principal and interest, and an important section of his bill addresses itself to that end. To accomplish this purpose, however, I think certain changes are essential. Its rule of rate making requires the Commission to adjust rates so that the carriers shall earn, as nearly as may be, $5\frac{1}{2}$ per cent. on the aggregate value of their properties. It should be distinctly encouraging to the investor to have the Interstate Commerce Committee of the Senate agree that some increase in net earnings is not only warranted but necessary. It is my considered opinion, already expressed, that the return should be not less than 6 per cent. Furthermore, such return, until the physical valuations have been completed, ought to be measured, as it always has been, on the property investment accounts.

I am seriously disturbed by the proposal of compulsory consolidations. It will result in seven years of uncertainty, which means more costly and more difficult financing. It will deteriorate the credit of the strong roads and not help the credit of the weak. Inequality of earning power has dictated this proposal, since on a given rate structure one company may have a grossly excessive income while another may be bankrupt. But

the bill intends to correct this inequality by a division of excess earnings. Why then the necessity of compulsory consolidations? I personally cannot conceive of much durable satisfaction from the work of a few experts commissioned to redraw the railway map of the United States.

The next few years will be crucial to the railroads. Their credit needs every fortification. Senator Cummins' Bill requires each carrier to set aside one-half of its earnings between 6 per cent. and 7 per cent. for a reserve fund of its own, the balance reverting to a general contingent fund. I venture to suggest that in the interest of reestablishing credit there should be no division of excess earnings until each carrier has built up its full individual reserve fund contemplated by the bill, that is, 5 per cent. on the value of its property.

The Esch Bill, as introduced, concerns itself chiefly with improvement in the machinery of regulation. Necessary as such improvements are they will never of themselves restore credit. In the form in which the bill passed, those few features in it that were calculated to encourage the investor have been carefully stricken out.

I wonder how many people realize that this problem of railroad credit is a public question of transcending importance. Failure to reestablish credit at this juncture means government ownership. The price of private ownership is a fair return on the investment.

"No country," Mr. Acworth warns us, "has ever nationalized its railways as a result of deliberately weighing the respective advantages and disadvantages of public and private ownership." We have reached the parting of the ways. But whatever the decision, it is of far greater moment to the people of the United States than it is to those holding railroad securities.

ESSENTIALS OF A SOUND POLICY AS TO THE INVESTOR

WILLIAM L. RANSOM,

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the First District

OTHER speakers have presented a wealth of statistical information concerning the railroad problem and the relation of the investor to it. On no other public occasion outside the hearings of the Congressional Committees have the facts of the matter been so comprehensively and clearly brought together. Perhaps the most helpful thing I can undertake at this juncture will be to try to formulate some of the fundamental principles which must be taken into account in all efforts to reach a solution of the present problem.

The future of railways, privately owned and operated under thorough public regulation, depends in large part on the ability of such a regime to command the confidence of the investing public. New capital must be had in larger quantities for new construction and refinancing. The future of the railways is thus deeply involved in the broader and more basic problem of the status of regulated industry in the United States. The operating experience of the railroads during the years immediately preceding the war establishes that more than half a billion dollars of new capital will be needed annually by the American railroads. For a number of years immediately ahead, especially in view of the present price level, the necessary new capital is more likely to exceed than to fall below a billion dollars per year. The railways must keep pace with the life and needs of the public they serve; they must grow or stagnate; growth means new capital; and new capital depends on conditions of investment. You can compel a man to *pay in taxes* the deficits incurred in railway operation or even the principal and interest of loans from the public treasury for new capital for railway and public utility enterprises, but you cannot compel him to *invest* his money in an enterprise compelled to do business under conditions which arouse his distrust and destroy his confidence.

In the industrial world recent events have emphasized the fundamental American principle that in conflicts between employees

and employers in basic industries, the rights and interests of the public are paramount to those of contestants on either side. The right of the great public to be adequately and continuously served is put in the first place. In the field of railway and public-utility service, likewise, there has lately been at work a sharp crystallization of opinion to similar effect—a recognition that above and beyond all efforts to capitalize the social unrest and force a change of ownership, the essential thing is that these vital facilities shall function to maximum efficiency and that injustice shall not be done to those whose abilities have perfected these enterprises and whose monies are serving the public through them.

We have had in the United States nearly ten years of deliberate, well-planned warfare to intimidate investors from furnishing the needed new capital for railway and other public-service projects. In some instances, this crusade has been the by-product of a narrow but zealous view of public rights as to franchise-holding companies; in other cases, it has been the work of men who believed that manifestations of extreme hostility to the owners of these enterprises would be so popular as to lead naturally to political preferment. In many instances, however, the campaign of terrorism and affrightment of investors has been inspired by those who realized that if private funds would not furnish the requisite capital for new construction and new financing, the treasury of the government will of necessity be resorted to, and that the most effective step towards governmental acquisition of all basic utilities would be to force existing properties into the bankruptcy court or upon the bargain counter.

In the debates which have taken place in the National Congress, and in much of the more recent discussion as to the plight of utilities in our states and cities, there has been discernible what may be termed a new realization of the relationship of the investor to the whole problem of public service. If we are to avoid and withstand the wholesale socialization of the railway, light, heat, power and traction enterprises of the country, conditions must be restored which will attract private capital freely, normally and adequately, under proper safeguards and guarantees, again into this important field. Investors and the general public may well grasp the situation and join hands in dealing with it. The insidious campaign which has made private capital unwilling to risk further outlays in the railway and public utility field has had consciously for its objective the compelling of resort to govern-

mental funds instead, and the clubbing of the present owners into willingness to sell outright on a bargain basis. In what I am saying in this regard, I am in no way discussing the merits of the suggestions from time to time made in American cities that a particular utility or utilities, according to the conditions, might be advantageously acquired by the municipality on a basis awarding just compensation to the investors. That is a business question, to be answered in each community according to its local conditions. Public ownership on such a basis may be wise or unwise, but in either event it has no such sinister aspect as the agitation to which I now refer.

In any program of effort to restore conditions under which private capital will again flow naturally and adequately into railway and public utility enterprises, there are, I think, certain fundamentals of policy, which may be briefly stated and commented upon as follows:

(1) *A recognition and enforcement by public authority of the corporate right to earn such a rate of return as will meet operating expenses, enable the system as a whole to be kept in first-class condition, and attract new capital into the enterprise as needed.*

In fixing the rates to be charged by a railway or other public service company, the effect upon the willingness of capital to finance needed new construction is too often lost sight of, in the effort to keep rates as low as possible. A rate which meets operating expenses and yields a return barely beyond the borders of confiscation, may not be *adequate for the life* of the enterprise. If the conditions of investment in railways and other public utilities are kept too irksome and hazardous, the cost of new capital becomes too high, and this in turn adds heavily to the costs of operation. The public inflicts harm and expense on itself by failing to deal justly with the investor.

At the present time, private capital may embark in unregulated industries with less risks and fewer embarrassments and earn a larger rate of return than may ever be countenanced in public service enterprises. It is no accident that the security issues of concerns selling candy, automobile tires, and talking-machines, or running "chain stores," have become more popular on the Exchanges than the best of our railroad and public utility issues. New stock of a railroad corporation could hardly be sold at all. To attract private capital into the public service field at all, it

is necessary, first of all, to eliminate or reduce some of the hazards, along lines I shall later mention; but it may also be necessary to revise some of the earlier concepts of what constitutes a fair and adequate rate of return for public service enterprises.

In computing a fair rate of return on investments in this field, an unfounded analogy is too commonly drawn with the statutes regulating the rates of legal interest in the several states, and the conclusion is reached that a rate of return on public utility investment is, perforce, adequate if it approximates the figure at which interest on certain types of loans would become usurious. The need for making the rate of return such as to attract new capital readily, as needed, in the level of prices and economic conditions to which the war has given apparent permanency, is not heeded. Yesterday's 6 per cent return has no drawing power under today's conditions. If 6 per cent was not too high in 1900 or 1913, 10 or 12 per cent is required now. As the Supreme Court of the United States said a few weeks ago:

It is a matter of common knowledge that, owing principally to the world war, the costs of labor and supplies of every kind have greatly advanced. * * * And it is equally well known that annual returns upon capital and enterprise the world over have materially increased, so that what would have been a proper rate of return for capital invested in gas plants and similar public utilities a few years ago, furnishes no safe criterion for the present or for the future.

If our public utility enterprises are to *live* and render a one hundred per cent service to the public, then the governmental authority—legislative, executive and judicial—must recognize and enforce the utilities' right to a rate of return which will draw capital into this field as needed. Reasonable rates must be fixed by public authority, and the companies permitted and encouraged to earn all they can under those rates. Anything else takes away the incentives to good management.

(2) *A cessation of arbitrary legislative interference along lines of fixed, flexible rates, applied within areas or to classes of service uniformly without regard to conditions.*

In whatever public authority undertakes to do respecting the rates of railroads and other public service corporations, the concept of *flexibility* must go hand in hand with *adequacy*. Rates must be readily readjustable for good cause shown—*upward* as readily and courageously as *downward*—whenever the facts warrant. There is no way of "getting something for nothing" from a public-service corporation, over any considerable period of time. The patron must pay for the service; the investor must pay for

it, for the taxpayer must pay for it; or all three must pay in part. Unless someone pays adequately, the service stops. If the patron does not pay adequately, the investor soon "takes his losses" and withdraws, either leaving the taxpayer or the patron to pay the cost or the two to divide it between them. The usual suggestion is that the public treasury shall in some manner furnish the capital and assume the mounting deficits, and the usual experience has been that paying the deficits by taxes makes transportation cost more. You can commandeer new capital by taxation, whether the enterprise is given a fair chance or not, but if you wish voluntary investment of private capital the conditions must be made attractive.

For many years there has been building in this country an elaborate mechanism, State and Federal, for forcing railroad and public utility rates *downward*. This was in a period of *declining* costs of operation per unit of service rendered. Industry has now experienced for five years a period of *rising* costs, and those costs are *still rising*, but the mechanism which availed to force rates *down* has failed dismally, in many of the states, to raise rates flexibly so as to keep revenues adequate and the investor safe. As a means of keeping rates adequate and reasonable in a time of rising costs, the machinery of public control, for the most part, broke down in the emergency. It has failed to protect either the investor or the public. This has been true of the Interstate Commerce Commission and many of the State Commissions alike. Is it surprising that the investor has been affrighted from the field?

The worst aspect of the problem of keeping rates adequate—neither too high nor too low—has proved to be the fixed legislative rate, born of some political exigency and applied without regard for consequences. In many instances, the Legislature has left the situation such that the Commission appointed for the purpose of regulating rates as well as service, has no power to authorize an adequate rate, even when conditions cry out for increase.

The inflexible rate, fixed by legislative act on an arbitrary basis and kept in force regardless of changed conditions, is the terror of the investor and a downright menace to good public-utility service.

(3) *Clarification of the bases of return upon investment, so as to ensure that no theoretic concepts and calculations can impair the investor's right to rates based upon the property invest-*

ment devoted to the public service, through adherence to any theoretic claim that the quantum of investment in a railroad system or a public utility plant becomes automatically less the longer it serves the public, until it is finally wiped out altogether at the behest of some estimated "table of lives" of detached units.

Time will not permit, and the present occasion does not warrant, an extended discussion of the questions of law and applied economics involved in the oft-heard claim that property devoted to the public service should be subjected to a "theoretical depreciation" which pares and whittles away, year by year, the investor's outlay and his right to receive a reasonable return upon the whole thereof.

I may, however, express the view that the most effective factor in the whole campaign to intimidate the investor and drive him from the railroad and public-utility field, has been the insidious doctrine of "expiring" investment or property value. In itself it has been, and will remain, sufficient to deter investors from risking new monies in a field subject to such a confiscatory concept, until it is generally rejected. Nevertheless, the statute under which the valuation of railway property has been in progress has been construed to give sanction to this concept.

The idea may be roughly illustrated in this way: Investors lay out \$1,000,000 in building a railroad addition or a public utility plant. They expect a return of 7 per cent or $7\frac{1}{2}$ per cent thereon, over and above operating expenses and the upkeep of the property, and rates are fixed accordingly. If, after the property has been in operation, such a rate has been charged, and such a return received, for several years, the question of the fixation of new rates by a regulatory commission arises, and the new rates are made such as to yield thereafter a return on a property investment of only \$600,000, and the quantum of investment is fixed accordingly, it is obvious that something has been done by the commission to wipe out and obliterate \$400,000 of investment in the property, and *confiscation* to that extent has taken place in the guise of law. That this is done, in disregard of actualities, on a theoretical estimate that particular units in the property had a "life" of only ten years and that at the end of four years, four-tenths of that "life," and so of the property "value," had "expired," leaving only six-tenths of "life" and "value" "unimpaired," does not alter the consequences to the investor. The result is a progressive destruction of his investment outlay, and he may be

pardoned for preferring a field of enterprise where no such scheme of minimizing his investment is in vogue.

The bases of sound rate-making are, I think, clear, and their practical application needs to be defined and insisted upon. The rate chargeable by a railroad or utility should be adequate:

(1) To defray all operating expenses—the cost of service.

(2) To provide for, as a part of operating costs, the maintaining of the system and property in good condition, furnish renewals and replacements, and cover the diminution of capital account through property withdrawn from service—thus keeping the property in first-class operating condition and the quantum of investment unimpaired.

(3) Over and above these current costs, to yield the investor a reasonable rate of return upon his property investment in the enterprise—his unimpaired investment—so that what he put into the project may remain in it and his right to earn a return upon all of it may continue, in the absence of some ultimate liquidation. Until the investor gets his money back from the enterprise, in some form other than that of the payment to him of the annual return, he must be regarded as entitled to receive a return calculated upon his aggregate outlay—what he is out of pocket because his money is in this enterprise—and no countenance can be given to the concept that his investment is *less* merely because it has continued to serve the public for some years. No man's investment is progressively destroyed by his receiving from year to year a payment representing a return on the investment. Nor does its duration affect its amount adversely. The *principal* of the money he has loaned to the enterprise is not extinguished or pared down by perennial payments of a return thereon. The right to earn a return on the full *quantum* of the investment continues until the investment itself is liquidated or repaid.

Under present-day operating conditions and with the broad powers of the regulatory commissions over plant and equipment, the endeavors of the executives of a railway or public utility enterprise are to maintain it in 100 per cent operating condition, and to make repairs, replacements and renewals whenever advisable to that end. This is done as a current charge out of operating expenses, and the plant is thus continuously renewing itself. Particular parts of units may wear or break; units may become inadequate or obsolete; but *the plant goes on*, and is kept abreast of operating needs, and has virtually the same, and often even

greater, productivity and efficiency, years after its operation began and years after the process of continuing renewal, repair and replacement began. The integrity of the capital investment is thus maintained, and the plant itself is kept physically good to the extent practicable or economically possible. Looking at the plant or railway system at any given time, certain outlays would be found necessary to make the plant or system 100 per cent physically good—things which would be done in the ordinary course of repairs and renewals, and things which it would hardly pay to do, because the conditions to be repaired are so casual and inconsequential as not to detract from operating efficiency. The full investment remains in the property, however, and the investor is entitled to a return upon the full amount thereof until his investment has been repaid him.

In order to feel assured of a square deal, the investor needs to know, with considerable certainty, the capital sum upon which a return will be computed, in any rate-revision by public authority. He needs to know that the company will be allowed to earn a fair rate on the capital put in by him until such time as that capital is returned to him. There is no need now for uncertainty or indefiniteness about these bases of action. For years the railroads and the utilities have been subjected to accounting systems under which outlays are fully recorded, capital accounts are closely scrutinized, units and quantities and prices are known, and authentic data is available for the bases of sound and just action in rate matters.

(4) *A constructive and cooperative attitude respecting the issuance of securities for new construction and re-financing.*

To bring the investor back into the railway and public-utility field with full confidence, there is need for a helpful and non-legalistic attitude on the part of the regulative commissions, in proceedings for authority to issue stocks and bonds for capital purposes, including re-financing. For a number of years, new construction by railways and utilities has been held to a minimum, as a part of a war-time program, and it has been deemed generally impracticable to undertake flotations of securities for any purpose in this field, except where maturing obligations have left no alternative. Needed extensions have been long deferred, and applications for approval of new security issues have all but disappeared from commission calendars. Perhaps as a result of this condition we have lost sight, for a time, of the practical conse-

quences of the course taken by the state authorities in acting upon proposed security issues. The time is at hand, however, when this phase of regulatory power must be squarely faced, because it bears vitally upon the question whether new capital can be had from private sources. The era of "wild-cat" and speculative financiering in the public-service field is far behind us; the day of "watered" or inflated issues of securities by railway and other public-utility corporations is happily past, in nearly all of the states. The issuance of securities by public-service companies, under the authority of state tribunals, during the past decade, has in most instances been preceded by rigorous and minute inquiry to see to it that bona fide capital purposes were represented and that an adequate amount of money or property was received by the companies as consideration therefor. The certification of the security issue by the state commission has been, as it should be, an assurance and protection to the investor; but instances have not been lacking where the attitude of the commission was so exacting and inflexible as to bar the way to businesslike financing or re-financing. The difficulty has been more often one of procedure and of intellectual predisposition than of substance; but the delay, the deterrents, the tendency to do "cheese-paring," and the reluctance to act readily upon the obvious actualities of a business situation, have operated to create oftentimes an atmosphere which the investor prefers to keep out of when he can.

The temper of the times in nowise suggests a return to the days of unregulated issuance of securities. Particularly if the commissions would fulfill their proper responsibility for the allowance of a fair return upon the property investment whose capitalization they sanction, the official scrutiny of security issues would be a great boon and safeguard to the *bona fide* investor. There is, however, need for reason, accommodation, common-sense regard for realities, and a little breadth of view, in the procedural handling of security issues by state tribunals.

The practical needs of the situation may perhaps be pointed by the comment of the Illinois countryman who went to Mr. Lincoln to consult him regarding marital infelicities. After listening to a narrative which covered some twenty years of domesticity, marred often by conflict, Mr. Lincoln ventured the view that the facts stated would hardly sustain a suit for divorce. "Good heavens," replied the prospective client, "I do not want a *divorce*; what I want is a little more freedom on lodge nights!"

(5) *A better adjustment of the relationship between company management and the various instrumentalities of public regulation.*

I do not believe that the investor will be disposed to supply again the new capital for needed facilities of transportation, light, heat and power, except as the relationship between the company management and the various officials and bodies imposing regulatory requirements is brought to a basis better defined and more harmonious. There is need for adjustment and definition, on both sides; mistakes have been made, on both sides; but the present situation leaves the definite feeling that various public agencies have been given drastic powers over both his outlay and his earnings, and that he and his investments are too often torn to tatters in a conflict between the commissions and the company officers, over matters which he does not fully understand, beyond the point that public officers have been vested with a power to do him harm from which the best efforts of directorates and executives cannot altogether protect him.

Regulation of a thorough-going character has come to stay, and the public interest has come to be recognized as a general partner in very public-utility enterprise. No mandates of a regulatory tribunal are required to give to the public interest a voice or a vote in the conduct of the affairs of the average large enterprise of today. Subject to the qualification that men of differing experience may differ widely in their judgments, a real desire to serve the public acceptably is now the rule rather than the exception, and the regulatory tribunals are called upon to review and correct divergencies of judgment rather than perversity of purpose.

In recognizing, however, that public control through suitable agencies is an essential part of any plan of public-utility operation through private enterprise, and that cooperation must be had between company and commission, there is need also for recognition of the delicate and drastic power reposed in the public agency. Power to fix the price charged for the company's product and power to impose requirements which add to the cost of producing the service rendered, involves a far-reaching control, not only over the investor's earnings from the capital he is devoting to the public service, but even over the security and permanency of the investment itself. In ways that attempted enforcement of the constitutional guarantees may not be able to forestall, regulation may inflict a virtual confiscation. So the investor may be pardoned if he is predisposed to be wary about putting more of

his money into enterprises so drastically supervised, at a time when there is such a demand for money in industries subject to no such control over selling-price, security issues, and the property investment itself.

Thus there is plainly a need that the commissions shall be made up of men of the broadest experience and open-mindedness of view, and that they shall be assured tenure, salaries, rank, and status of aloofness from political and financial entanglements, so that their position and qualifications may correspond to those of judges of the highest courts of the state. Furthermore, there is need for a simplification and concentration of supervisory powers. Far too many public officials and bodies are vested with power to affect adversely the earnings and properties of railroads and other utilities. From a score of uncoordinated public instrumentalities come a multitude of directions, adding to the complexity and cost of doing business, and subtracting from the revenues. "Too many cooks" spoil the investment; there is need for a more unified regulation.

For example, if the government requires a utility to pay taxes on a given *quantum* of property investment, it should readily, and at all hazards, secure to the company's investors rates permitting an adequate return on *at least* that quantum of property. Oftentimes the value fixed for tax purposes may fall far below the total property investment on which the company has a right to earn a return, but the spectacle should be ended of *one set* of governmental officers trying to establish the highest possible value for the company's property as that on which the company should pay taxes, and *another* set of officials trying to prove that the same property has little or no value at all in a rate proceeding, and *both* sets of officials, and several others, trying to prevent the company from earning anything at all on either the highest or the lowest value claimed by any of the public authorities.

Again, if the government subjects the finances and operations of a public-service company to a constant and inquisitorial supervision and analysis, in the form of a uniform system of accounts and closely scrutinized reports rendered under penalty, the operating data thus brought together under public scrutiny ought to be recognized as the available basis for official action *in favor of*, as readily as *against*, the company, and those who have required the company to spend much time and money in complying with these regulatory requirements ought not to be permitted to deny the company the benefits of such compliance in good faith.

WHAT WARREN S. STONE THOUGHT IN 1911

SLASON THOMPSON,

Director Bureau of Railway News and Statistics, Chicago

I FIND myself unable to agree with Mr. Warfield in his proposal to confiscate the net operating income of roads earning above six or any other per cent. The earning power of all roads in a given region is taken into consideration in fixing the reasonable and legal rate, and generally the most successful roads have the greatest weight in arriving at that rate. The rate once legally established, the extent of the net return should be left to the efficiency of the management in earning it. If there is to be any diversion of net income from the road earning it, it surely should not be based on a minimum return of six per cent but on fifteen or twenty per cent or some figure beyond which Congress decrees that net profits in any business, railway, banking or otherwise, coming within its purview, are excessive. But under any circumstances I do not believe in robbing Peter to pay Paul, no matter how rich Peter may be nor how poor and deserving Paul may be. As rates come out of the public, the graded income tax for the public chest would seem to be the means of making Peter contribute his share to the common weal.

Will a net return of six per cent, think you, attract new capital to the risks of an industry where the excess over that is subject to seizure for the common good? I trow not.

On the way down here I thought that anything I might have to say at this conference would count little toward the settlement of the vexatious problem confronting the people of the United States, but that words of truth and soberness spoken by Warren S. Stone, Grand Chief of the Brotherhood of Locomotive Engineers, in the calm past might carry more weight now than they did eight years ago. So I brought along a reprint of his speech before the National Civic Federation at its annual meeting in 1911, a few passages from which I wish to submit for your consideration. They need no other introduction.

"Recently," said Mr. Stone, "the papers were filled with the statements made by a new star that had arisen in the labor world. 'The railroads can save a million dollars a day.' Think of it! Three hundred and sixty-five millions a year! When a man

comes forward with such a startling statement as that made by Mr. Brandeis, we commence to look around and ask questions we have a right to ask. Did he ever manage a railroad? No, he never did. Place him in the general manager's chair in charge of one of the great railroad systems, and he would be lost. You would have to put a bell on him to find him. Did he ever design a locomotive, or draft one? No, he never did. Did he ever shovel any coal into one? No, he never did. I have. I have shoveled more coal into locomotives than you could pile on a city block. Mr. Brandeis has had no practical experience, and knows nothing about the subject. Yet only yesterday he stated we could save five hundred thousand dollars a day on fuel alone. No railroad is at the present time throwing away a dollar, and, regardless of Mr. Brandeis' statement to the contrary, the American railroads are the best managed of any in the world. The men in charge of these great systems stand head and shoulders above the railroad men of the world. There is no other class of business that is operated on so close a margin, no other business where the details are watched so closely as on the average railroad. And yet Mr. Brandeis says they can save \$365,000,000 a year. He must have gotten that fairy tale out of some story book. * * *

"The individual shippers of the country are the very ones who reap the benefits of all rebates ever given and cause the present drastic laws for the regulation of interstate traffic to be enacted."

Right there I would like to interject the remark that it seems to me there has been a bewildering confusion of ideas as to shippers and the public. They are two very different interests. The former continually masquerades in the raiment of the latter, especially before the Interstate Commerce Commission, which apparently has never realized the deception. Mr. Stone did when he said:

"In the end, who pays the freight? The most superficial study of the question will prove to any one that the consumer pays the freight. The shipper does not pay a dollar of the freight. He is simply a parasite who lives off the consumer and the producer, one of the middlemen who take their toll and increase the cost of living."

In support of this view I might add that since 1900 there has been remitted in the reduction of rates to the shippers over, or nearly, fourteen billion dollars, not one cent of which has ever reached the consumer. You know that it has not, because you

know that in the meantime everything that the consumer has paid for has gone up.

And then Mr. Stone concluded his remarks with the following summary of the situation, more impressive, even now, than when it was spoken:

"I believe," said he, "that the masters of finance, such as represented by Mr. Morgan and others, are absolutely right when they say they have reached the limit of economy in railroad operation. I don't believe it is possible to do any more along that line, and I agree with them that anything in the future toward improvement will have to be by addition or increase to freight rates. There never was a time in the history of the railroads when so much was demanded as now. There never was a time when so much was demanded along the line of fast traffic, high speed, splendid roadbeds and a thousand and one other things, and there never was a time when the railroads were in need of more money to make improvements, build terminals and other things needed as now, and the only hope for them is in an increased freight rate. What is the result? Today in this country everybody is waiting to see what the Interstate Commerce Commission is going to do in regard to freight rates; business is practically at a standstill; there is a wave of uncertainty in the air; you may say it is all due to the wage movement. It is true we have had increase of wages throughout the country; but that doesn't begin to compensate for the increase in the cost of living during the same time and the same period. The increased cost of wages is not what is causing the increased cost of living at the present time. Every other commodity has had to increase prices except the railroads; everything they had is going up, not only labor, but everything else, and everything the railroads have to sell is going down, and unless there is a change of public opinion in the near future, some of the best managed railroads today will have all they can do to keep their heads above water, and they haven't the money and can't get it for the needed improvements they have to make."

Much water has gone over the dam in the eight years since these candid words were uttered. The Commission denied the relief for which Mr. Stone pleaded, with a few words of *manana* thrown in by Commissioner Lane. The average ton mileage receipts continued to drop from 7.57 mills in 1911 to 7.14 in 1916. The Adamson law added \$200,000,000 to the cost of operation and Mr. McAdoo's Order No. 27 and its supplements \$800,000,000 more, only partly offset by belated increases in fares

and rates. The operating ratio grew from 68.66% in 1911 to over 85% for the nine months ending September 30, 1919, and taxes increased apace. The government took over the railways to win the war, but, with a shrewdness unworthy of a great and just government, included the worst year in the record since 1908 in the test period by which the standard return was reduced fully \$100,000,000.

The situation today calls for an advance of at least thirty per cent in freight rates to meet the increasing wages which the Director General continues to order while refusing to order the increase in rates which he still has the power to grant.

And yet I have sat here and heard the question of what is the matter with the railways discussed from every angle but what I believe to be the correct one: A mandate from Congress to the Interstate Commerce Commission to reverse its traditional attitude toward the railways. The railway situation to-day is the result of the departure of the Commission from the purpose of its creation as announced by Judge Thomas M. Cooley in its first report, when he said: "The Act to Regulate Commerce was not passed to injure any interest but to conserve and protect. It had for its object to regulate a vast business according to the requirements of justice."

If the Commission would rise to the full measure of its vast powers and responsibilities, the railway problem would be solved without its asking for greater powers.

RAILWAY CREDIT AND THE INTERSTATE COMMERCE COMMISSION

CHARLES WHITING BAKER

Consulting Editor of Engineering News-Record

I HOLD no brief for the Interstate Commerce Commission; but as they stand here charged with the responsibility for the collapse of railway credit, some presentation should be made of their side of the case.

As stated by Commissioner Clark in his testimony before the Esch Committee on July 15, 1919, the facts are briefly as follows: Prior to August 28, 1906, the Interstate Commerce Commission had no authority to fix railway rates. In the years from 1900 to 1906 the dividend payments to railway companies varied from \$140,000,000 in 1900 to \$272,000,000 in 1906. Since 1906, with the Commission in control of rates, railway dividends have largely increased. They were \$390,000,000 in 1907 and \$460,000,000 in 1911. The total payments to railway stock and bond holders, which were \$460,000,000 in 1902, were \$870,000,000 in 1911 and \$892,000,000 in 1914. The percentage of railway stock which pays dividends has increased under the Commission's control. In the five years prior to 1905 the percentage of outstanding railway stock paying dividends varied from 46% in 1900 to 57% in 1904. Since 1907 the percentage of railway stock paying dividends has in no year fallen below 60% and reached 67.65% in 1911. Not only this, but the average rate of dividends has increased. In the four years prior to 1904 the average dividend was less than 6%. In no year since 1906 has the average dividend rate been less than 6¼%, and in four of those years the rate was above 7% and in two years above 8%.

Thus, the railway security holders as a whole have fared better in the years since the teeth were put into the Interstate Commerce law than in the years preceding. This is true notwithstanding the many million dollars which holders of railway securities have lost during these latter years through the financial misdeeds in connection with the railway systems of New England, the St. Louis & San Francisco, the Pere Marquette, the Cincinnati, Hamilton & Dayton, and various other companies.

It needs only a reference to these well remembered scandals to make it clear that there are other reasons why investors hesitate to buy railway securities than fear of what the Interstate Commerce Commission may do.

And having said this much in defense of the Commission and in opposition to the campaign of publicity which attempts to make it responsible for the collapse of railway credit, let me say with equal frankness that in my opinion the time is past when Congress can merely toss over to the Commission the responsibility for Government regulation of the railways. The Commission is organized as a judicial body, to enforce legislation. There must be in the Government an efficient executive organization to deal with the railways if our work of railway regulation is not to break down; and it must not break down, if we are to escape outright Government ownership and operation.

THE HUMAN FACTOR IN THE RAILROAD BUSINESS

HENRY R. SEAGER

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WE are going to discuss this morning the really difficult phase of the railroad problem, "The Railroads and Labor."

The impression that we all have received from the meetings held yesterday is, I believe, one of optimism. The situation of the railroads is, to be sure, critical, but the remedy from the viewpoint of the investor is not difficult to discover. It is obviously an adequate increase in railroad rates. That remedy would seem to bear hardly upon the shipper, but as was brought out, without prosperity on the part of our railroads we cannot expect general business prosperity, and if we have general business prosperity then the shipper can easily bear the burden of higher rates. This seems to ignore the fact that at last analysis the public, the consumer, must pay the bills, but as was also pointed out, if our remedy gives us railroad prosperity and general business prosperity then the public must share in the good times and will not mind an added burden in the form of somewhat higher prices—not necessarily much higher prices—as the result of the higher railroad rates.

Altogether this has given us a somewhat cheerful picture of what easily lies before us in connection with the railroad problem. This morning, we take up the aspect which presents elements of friction and dissatisfaction that are not so readily disposed of. We take up the human factor, and as was long ago pointed out by Adam Smith, there is no aspect of economic relations that is so troublesome or where the element of friction is so great as the human aspect.

At the very outset, the phrase which describes the topic for the morning, "The Railroads and Labor," may be objected to because it is too impersonal. By the "railroads" in this connection I take it we mean the human beings who are called upon to administer the railroads—the human factor on the side of management—and by labor we mean the classified employees who operate the railroads under the direction of the management,—the human factor on that side.

Before the war, the relations between management and labor seemed to be fairly satisfactory. The demands that were put forward by the organized workers were the demands that we should expect: demands for higher wages, shorter hours, more satisfactory working conditions. There was no fundamental difference of view between the management and the employees as to what was called for by the best interests of both. The difference of view was a difference of degree as to how high wages could fairly be paid, how short the hours could fairly be made, how favorable the working conditions could be made.

The new spirit engendered by the war and experience of government operation have caused a radical change in the demands of the organized workers. As has been brought out repeatedly at these meetings, the demands now put forward with as great insistence as wage demands were ever put forward in the past, are for government ownership of the railroads, and for the participation of employees in the management of the railroads.

Whether we consider these demands wise or foolish, we should be exceedingly unwise not to recognize the necessity of adopting a policy that pays due regard to them in connection with the reorganization of the railroad industry. For there is nothing more certain than that the successful operation of the railroads in the future will continue to depend, as it has in the past, on the loyal and efficient coöperation of the employees.

It may be possible for Congress to pass legislation which the employees distrust and oppose, and it may be possible to make that legislation effective, but the outcome will not be a solution of the railroad-labor problem. Such a solution will be incomplete and no permanent solution will be achieved until some plan that inspires the confidence and appeals to the loyalty of the employees is worked out.

There are two aspects of the matter that I think impress all of us strongly, looking at the problem from the viewpoint of the public: One is the background of this demand for representation of employees in management. Does it represent a desire on the part of the railroad employees to arrogate to themselves the management of this industry? I do not believe that this can fairly be said. Does it not rather represent, as Mr. Shea brought out last night, distrust of the management based partly on revelations of flagrant manipulation of railroad securities, in some instances in the past, and partly on ignorance? I want to throw

out the thought that even though representation of employees on railroad boards may not contribute greatly to the efficiency of the railroads directly, if indirectly it can serve to give to the rank and file confidence in the management, and information in regard to vital aspects of the problem that confronts the management, it may be of tremendous benefit in increasing the efficiency of railway operation.

The other aspect is that connected with continuous operation of the railroads. Enthusiasm was excited several times during the meetings yesterday by references to the anti-strike provision of the Cummins Bill. The premise on which this provision rests, that is, that we must have uninterrupted operation of our railroads, we all undoubtedly subscribe to. The time is past when we can tolerate any interference with the continuous operation of our railroads, but whether the conclusion which Senator Cummins and his associates draw, that is, that this means anti-strike legislation, making strikes conspiracies and trying to penalize them through the courts, is another matter.

In these questions involving the human factor, the logic of the matter is not always convincing to those who understand the psychology of the situation. We have an illustration in connection with the coal strike. So far as the law is concerned it is substantially the same as would be the law under the Cummins Bill, but is it causing coal to be mined? Even so conservative a paper as the *Times* pointed out the other day that you cannot, through writs of injunction, compel men to mine coal when they do not wish to. Is not the contention of Mr. Shea last night, that if we deprive these railroad employees of the right to strike that is enjoyed by other employees, the necessary corollary of the policy is that we put them in a preferred position as employees; that is, that we work out for their protection what Mr. Shea called an industrial code, including, as he views it, a living wage, the eight-hour day, the guarantee of regular employment during good behavior, and so on. Must we not think of these two things together? If we take away something, must we not reconcile railroad employees to the change by giving them something—giving them something that insures that they shall enjoy the favorable conditions of employment, that in their view they can only be sure of under present conditions by retaining the right to strike?

The bright spot in our railroad situation is, to my mind, the

character of our railroad employees—the character of the men in the brotherhoods, and the character of the men who are managing our railroads.

To a very large extent, our practical railroad managers are men who have come up through every stage of the industry, who understand the psychology of the wage earner, because they themselves have been wage earners, and who also understand the problems of management because they are managers, and who also through their constant contact with boards of directors, understand the financial side of railroad operation.

PENDING RAILWAY LEGISLATION

TIMOTHY SHEA

Acting President Brotherhood of Locomotive Firemen and Enginemen

I AM very glad, indeed, to be present on this occasion and make a few observations concerning pending railroad legislation now before Congress, known as the Cummins and Esch bills.

At the outset I desire to say that there are always two sides to every question, and in this connection I am frank to admit that capital has rights that must be recognized. On the other hand, I am sure you will agree with me that labor has rights that must not only be recognized but respected.

Capital cannot get along without labor, and, conversely, labor cannot very well get along without capital because out of labor capital and all of the wealth of the country is produced.

The railway labor organizations are opposed to the fundamental basis of both the so-called Cummins and Esch bills. They are unalterably committed to the principle of public ownership and a certain form of public operation. As a consequence, we do not favor any pending railway legislation, however modified its form may be, which has for its object a return to the old conditions of private ownership and operation of the transportation industry. I wish to emphasize this point of view at the outset, so that in discussing special features of the Senate and House bills which are peculiarly objectionable to us, I may not possibly be misunderstood as giving my assent to other parts of these proposals, or of being in accord with the general theory of ownership and operation upon which they are constructed.

Anti-Strike Provisions

With this reservation in mind and considering the bills as they stand, the most objectionable provisions so far as employes are concerned are those in the Cummins bill dealing with labor conditions and relations. The authors of the Cummins bill directly state that they are determined to shackle labor by taking away from it the right to strike. The framers of the Esch bill at first had the same object in view. The labor provisions which they originally proposed were even more vicious than those of the

Senate bill, because they were indirect and subtle. Their effect would have been to disrupt labor organizations, dissipate their resources, absorb their protective funds and render their leadership powerless by making non-compliance with a wage award or finding a legal ground for damages. When this was pointed out to the House, these labor provisions, I am glad to say, were stricken out of the Esch bill. The object which it is hoped to attain by the Cummins bill, however, is identical—the deprivation of labor of its most effective weapon,—the right to strike.

A Deliberate Conspiracy

The anti-strike provisions of the Cummins bill are justified outwardly by the claim that the public welfare must be protected against dislocations and stoppage of transportation facilities. The distinguished Chairman of the Senate Committee, whose name the Senate bill bears, and many others in the Senate, are undoubtedly sincere in this point of view. But they are blinded by sinister interests which lurk invisibly in the background. We, who represent labor, may be unduly suspicious at times, but we pride ourselves in the fact that we have long since become proficient in detecting the hand of Esau when we hear a voice which seems to be the voice of Jacob. And we have found it wise not to forget another Biblical story. You will recall that the prophet Samuel tells that when Joab met Amasa, he said, "Art thou in health, my brother?" and, as was the custom of friendly greeting in those early days, he took Amasa by the beard with the right hand to kiss him. But in an excess of confidence "Amasa took no heed to the sword that was in Joab's hand; so he smote him therewith in the fifth rib" and Amasa died.

We have not the confidence of Amasa and when we look beyond these anti-strike proposals we can see the sword of treachery. The chief executives of the railway labor organizations have become convinced—and their conclusions are based on actual evidence—that the pending anti-strike legislation is the indirect outcome of a conspiracy to reduce the wages of railroad employees below their present inadequate levels. The dominating financial interests in the transportation industry, who, in the background, conspired to bring about this legislation under the dissimulation of protecting the public against railway strikes, have decided that when government control of the transportation industry is terminated, they will reduce the rates of pay of railway

workers and, if strikes result, they will break them by fining or imprisoning the strikers and their leaders. It is the same reasoning and it is the same group who have attempted to continue the enslavement of the iron and steel workers by denying them the right of collective bargaining. These interests are also responsible for the failure of the National Industrial Conference called by President Wilson to function. They are also the fundamental forces against bituminous mine workers and are at the bottom of the conspiracy to exploit both the miners and the consumers of coal. Their object is never altruistic but always sinister. Their purpose is to continue unchecked their war-time profiteering, and the exploitation of wage-earners and the public, in which profitable policy they had been so successful prior to the war. It is unnecessary to say that not only as railway workers, but as free and patriotic citizens in our self-governing American republic, we shall resist this conspiracy to the uttermost. Under no conditions shall we consent to be shackled with legal chains of industrial slavery.

Anti-Strike Legislation Means Involuntary Servitude

There is no blinking of the fact that the real interest and the vital significance of anti-strike legislation to the railroad-employee is involuntary servitude. It will render him powerless in the presence of his most formidable and ruthless adversaries. Not only would his power of defense be lost, but what is of almost equal importance, he would be without strength for an offensive of any description or for the advocacy of a constructive program of any merit. It is strange and incredible, that when we have just made every sacrifice of life and property to destroy political autocracy in Europe, and when we have been encouraged to look forward to a larger measure of industrial democracy, that a policy is formulated and advocated which can mean nothing else than placing railroad workers under the control of autocratic financial and industrial interests.

Theoretically Unsound and Unjust

The anti-strike provisions of the Senate bill now before the Congress are also theoretically unsound and manifestly inequitable. The Chairman of the Senate Committee in his report accompanying his bill tells the railroad employees that he has provided a series of boards or wage-courts to pass upon their com-

plaints and, as in civil and political life, their differences are justly decided by the courts, so in the transportation world, their complaints will be justly passed upon by the machinery which he has proposed. Such a statement is manifestly unsound however, for the reason that the industrial constitutionalism and judicialism which he proposes to establish cannot be compared with our fundamental political laws or the courts which have been established for their interpretation and application.

The Constitution of the United States and all democratic constitutions contain a code or bill of rights guaranteeing personal and civil liberty to the individual. The courts in their decisions act under the guidance or limitations of these fundamental guarantees. To the individual they are a condition precedent to the acceptance of the constitution itself and to his subordination to the judicial agencies under the constitution. Moreover, all political constitutions provide reasonably prompt means for their own amendment or revision.

But the pending Senate bill provides no means beyond influencing Congress for a change in its labor provisions. Neither does it contain any bill of rights or fundamental guarantees or safeguards to labor. If the right of strike or revolt against industrial conditions is to be denied, every consideration of justice requires that such legislation should be accompanied by an industrial code or bill of industrial rights to labor, such as the right to a living wage, the right to a reasonable workday, the right to organize and to deal collectively by representatives of their own selection, the denial that labor should be treated as a commodity, and similar principles which were adopted by our own government as a war policy towards labor, or which have been sanctioned by the enlightened opinion of the civilized world in the so-called labor provisions of the peace treaty. Under such a code, wage adjustment boards, or industrial courts, so to speak, would be given a code of the fundamental rights of labor as a basis for their procedure and decisions. There would be a reasonable guarantee that the grievances of employees would be justly settled. Protection of the public against strikes would be unnecessary, for they would never occur. The enactment of the anti-strike legislation now before the Senate, however, without the assurance of any fundamental rights of labor, would be equivalent to the imposition by force upon an unwilling people of a political constitution which did not contain any guarantees as to the rights

of freedom of speech, of worship, or of assembly, and announcing to the individual citizens that they should submit all their injustices to a series of boards or courts under that constitution and thus secure a just settlement of all of their complaints. The enactment of anti-strike legislation for the railroad employees would, in other words, be identically the same as the forcing upon a part of the people by all of the people restrictions for their government without any measures for their protection.

We submit that such legislation is not only unjust and intolerable, but is opposed to the fundamental ideals of American democracy. If labor is to be deprived of the right to strike and is to be required to submit all its grievances to judicial determination, such a policy must obviously be preceded by legislation or agreement which will give to labor in the form of industrial principles or fundamental law the assurances of its fundamental economic rights. Without such a policy, anti-strike legislation will open wide the door to an intolerable exploitation of the working classes which will result in violent protest and the breakdown of civil government.

It is for this reason that the third practical consideration against such legislation may be stated. It is not feasible. Being unjust and undemocratic, free men will not endure it. It is, therefore, impracticable. All of the industrial and commercial nations of the world have in past years tried such a policy in some form, and with the exception of France and Russia under the old regime, they all found that it did not work. In Russia, discontented public service employees were executed, and in France, because of its laws for universal military service, strikers were called to the colors and defeated by military coercion. Hundreds of thousands of men cannot in the event of a discontinuance of work be placed in jail. Men will not submit to the confiscation of their financial resources and property because they have refused to accede to unjust working or living conditions.

These facts must surely have been known to the Senate committee which recommended the Cummins bill. If not, they should have known. Three years ago, an exhaustive report was prepared under the auspices of this committee, which showed that anti-strike legislation wherever tried had been found to be impracticable and ineffective.

Finally, it may be said that the proposal of such legislation

at this time is all the more unpardonable because it is unnecessary. There has been no strike of any consequence among transportation employees for more than thirty years. There has been no recent threat of any serious stoppage of work. As a consequence, an attempt to justify such proposals by the claim that the public interest must be protected against strikes falls of its own weight, and leads irresistibly to the conclusion that some other motive, not so laudable as the protection of the public, is back of this legislation. To those who know conditions and have an insight into the psychology of the railroad worker, it is apparent that the enactment of such legislation will have exactly the opposite effect to that for which it is intended. It will add to existing discontent, stimulate dislocation of transportation facilities, and probably lead to a stoppage of work on a scale that has been hitherto deemed incredible.

Fundamental Considerations Involved

The fundamental considerations which are involved in a permanent railroad policy and for the correct working out of which time and study are necessary are fourfold in number. In the first place, justice must be done to those who represent capital invested in the transportation industry. These rights are comparatively easy of ascertainment and satisfaction. The government can, by judicial process, determine the amount of capital which has been prudently and honestly invested in the railroads and acquire the ownership of the properties by justly reimbursing those who represent capital. There should be no confiscation of investment values, or rigid adherence to any theory of valuation which, while logically correct, would result in loss and injustice. Acquisition of and reimbursement for railroad properties should proceed after a judicial consideration of all the facts and interests involved and should follow the lines of an equitable adjustment of the claims of all parties concerned.

The labor organizations, in putting forth the so-called Plumb plan, have been accused of attempting to confiscate the property of innocent persons without due process of law by failing to distinguish between those who have been responsible for improper methods of railroad finance and the holders of securities which have been improperly issued as a result of these methods. Nothing can be farther from the truth. We have no desire to injure the holdings of the much-famed "widows and orphans" or to re-

duce the reserve of savings banks and other institutions. This charge against us is especially absurd since our own people are large depositors in savings banks and similar institutions, who unfortunately may have been victimized in the past by the vendors of railroad stocks and bonds. We wish to see justice done for the public and to all parties concerned. We know of no better method to attain this end than by judicial consideration and determination of values of railroad property and securities upon the basis of the equities and the facts.

In the second place, another essential condition to government acquisition and operation of the transportation industry should be the guarantee to railway labor of its fundamental rights. The legislation enacted should contain an industrial code, so to speak, which would embody the fundamental guarantees to labor upon which future adjustments of wages and working conditions should be based. These principles were sanctioned by our government during the war and were embodied in the so-called principles of the National War Labor Board. They are also contained in the peace treaty in the labor provisions of the Covenant of the League of Nations. Among the most important of these is the right of workers to organize and deal collectively through their own chosen representatives, an eight-hour workday, and the right to a living wage. By way of illustration, as a preliminary to a permanent railway policy, there should be, after a complete investigation, a determination of a living wage for all occupational groups which would afford not only subsistence but a reasonable standard of health and comfort to the families of railway workers. Upon the basis of these minimum standards of a living wage, differentials should then be fixed varying according to the productive worth of employees to the industry, corresponding to their training, skill and experience. With the acceptance and practical application of these and other fundamental rights of labor in the fundamental law, railroad employees would be satisfied, future adjustments between labor and management would be comparatively easy, and there would be no danger of strikes or dislocations.

In the third place, the policy should be accepted at the outset and should be given a practical application, under which employees and managers should participate in increases in railway earnings in the form of increased wages or salary payments, and the public should be guaranteed a similar participation in the shape of

lower transportation charges or more improved and safer transportation facilities. Such a policy would make for economy and efficiency of railway operation and would bring all interests concerned into enthusiastic cooperation in making public operation a success.

Finally, the constraining motive at all times should be public service and the public good. The interest of the public is obviously paramount. With the recognition and observance of the fundamental rights of or safeguards to labor in the way in which I have indicated, there would be no clash between railway employees and the government. The transportation workers would cordially and single-heartedly unite in operating the railroads in the interest of all the people. As a matter of fact, the interests of the public and of railroad workers would be so similar as to be indissoluble.

The Ideals of the Employees

These are the ideals and aims of railway employees. The attempt has been made to apply them concretely in the bill which we have submitted to the Congress and which is popularly known as the Plumb Plan. We do not claim that this bill is perfect. Some modifications of it will undoubtedly be necessary. We do believe, however, that the fundamental principles underlying it are absolutely sound. In this connection, I might say that our opponents have attempted to cast a stigma upon our proposals by asserting that we are endeavoring to Russianize the railroads by substituting for the present domination of capital an autocracy of labor—that we are endeavoring to secure the control of the transportation industry by labor and its operation by labor in the selfish interests of labor. It scarcely seems necessary to reply to such obvious misrepresentation. What we are trying to do is to place the railroads under democratic control, and with the fundamental rights of employees guaranteed and their future hopes safeguarded, to have the industry serve all the people, and not any one class. It is our purpose to see the present domination and exploitation of the industry by capital supplanted by a democratic control and administration.

Since our own Declaration of Independence and the French Revolution, the principles of political democracy have been growing and spreading over the face of the earth until they have now practically been accepted by all civilized peoples. The

experience of recent years with political democracy has taught us that it will be a failure unless it is supplemented by rational measures of industrial democracy. Industry must cease to dominate our democratic institutions. Industry must be subordinated to our democratic institutions and ideals. The members of the railway labor organizations are peculiarly American. They are principally born of native fathers whose fathers and grandfathers were in turn of native birth. They cannot be accused of being corrupted by foreign doctrines which are revolutionary, fallacious and unsound. They are Americans from the beginning. They are Americans now. Their present purpose is not to "Russianize" but to "Americanize" the railroads. We wish their management and operation to be brought into conformity with the democratic aspirations and ideals of the founders of our self-governing republic. It is because we desire this and are working for it that we urge the extension of the present government control of railroads for a period of two years so that time may be given the people to study the problem and pass upon it intelligently.

To hurry the railroads now back to private ownership and operation by means of the Cummins Bill, the Esch Bill, or any other legislation, would, in our estimation, be a public calamity.

RELATIONS OF RAILROADS AND THEIR EMPLOYEES

W. G. BESLER

President Central Railroad of New Jersey

MANY years ago when I was in college in Boston, I boarded with an old gentleman who had made and lost three fortunes in railroad contracting. He was a fine specimen of the olden time gentleman, and had a world of wisdom and common sense stored up in his head.

By reason of being a member of the family, so to speak, I heard about some family difficulty which was taking place between the brother-in-law and his wife, also an old couple, and which resulted in a suit for divorce by the wife on account of alleged incompatibility of temperament and cruelty.

The old gentleman with whom I boarded was expected to be the star witness and furnish the necessary conclusive testimony, but on the day of the trial (so I afterward learned), his evidence was to the effect that he saw no reason for any divorce, and that in his opinion the couple were getting along about as well as married people usually do!

If I were to be summoned as the star witness in an allegation for the granting of a divorce of the railroad employees and employers, I would have to testify that, after an experience of 39 years in close and intimate personal touch with each and every branch of railroad service, I am of the opinion that, fundamentally, there are no real differences of any consequence between the railroads and their employees; that as a rule they have gotten along together, are living together very much more comfortably and happily than most other classes of employment; and that there is no occasion for meddling by Boards or Commissions or other outside agencies, as all difficulties in the family can be practically adjusted among themselves if given a fair chance to get together.

In the 17 years that I have had active charge of the management of the company with which I am connected, there has never been a grand officer of any of the four brotherhoods in my office on account of difficulties or troubles with their organizations; and it was not until the government took over the control and op-

eration of the railroads, that an officer of one of the newly formed unions which has sprung up since that time, found it necessary to ask for an audience, and even his difficulty was subsequently adjusted satisfactorily through mediation and arbitration.

Of course, it takes the exception to prove the rule; and there have been railroads which seem to have had more than their share of trouble with their employees, but we all know there is an underlying cause or reason for every effect; and, in my opinion, if the necessary degree of intimacy had existed between the management and the employees, it is more than probable that the difficulty would have been avoided—the best evidence of which is that, subsequently, they *did* come together, but only perhaps after hard feeling had been engendered, which might have been avoided.

I wish to emphatically assert that, in my opinion, railroad employees have, since the inception of railroading, and up at least until the recent past (if I should even make that exception), been, as a rule, most loyal in their sentiment and pride in behalf of their particular companies; and that such a company spirit has been much more characteristic in the case of railroad employees, than in almost any other class of employment.

There are reasons for this, one of which is that the character of the service, particularly in the *operation* of railways, requires a greater degree of initiative than is ordinarily permitted in other kinds of service, as, for example, in large mills or factories where the individual becomes but a cog in the wheel, and seldom sees or comes in contact with the outside world of business.

Railroad employees have always been what may be termed a preferred class in labor circles. Their rates of wages, at least prior to the war, were usually in advance of that paid to other classes of labor from which they were recruited—the best evidence of which is that they left such employment, or decided for themselves not to enter such other places in preference to entering railroad service.

Under the old order of things, the men, through their representatives in the brotherhoods, made their occasional requests for adjustments in wages, which were taken up, considered upon their merits, and after conferences and mutual concessions, a new schedule was adopted. The men know in advance about how much they were entitled to receive, and the companies granted according to their ability to pay, or declined to allow be-

cause of reasons which were discussed to a finish and settled then and there. It was not until a nation-wide movement for standardization of wages was inaugurated, that the question of railroad labor and railroad conditions of employment and wages, attracted much more than local attention, and as to this I shall have more to say later on.

Perhaps right here may be as good a place as any for me to remark upon the statement so frequently made that railroad employees were profiteering; and let us stop a moment to consider just what this means, and what has taken place. There are always two sides to every story, and on the one side I will give a few illustrations of which I have a personal knowledge.

A large department store in the City of New York has under contract a furrier who makes its fur goods. A few years ago this furrier received \$85.00 for a certain style of lady's coat. For the same coat he now receives \$135.00; and curious to know what the article might retail for, he sent his wife to the store to follow it up, and she found when the garment was produced from the case, that the price tag upon it was \$425.00.

Another instance is a local haberdasher who does business in a store located near my office, who had secured a lot of gloves of fairly good quality at a low price, and thinking that he would stimulate sales and favor his customers, he places a 50 per cent profit upon them, and offered them as a bargain sale. Customers came in, looked over the gloves, and said they wanted something better, etc. About that time he noticed in the window of a neighboring store gloves of about the same quality, at a very much higher price; so he returned to his store, withdrew the sale, and increased the price 400 per cent, after which the gloves went off like hot cakes.

Another instance is that of a friend of mine—the president of a company doing business here in New York—who has been in the habit of purchasing shoes from the “XYZ” store, where he bought three pairs at a time, for which he had always paid \$8.00 a pair.

Something over two years had elapsed, and he went to the store to purchase his usual allotment, but, as he says, fortunately he asked the price before telling the clerk to wrap them up and send them to him and charge to his account, and he was told that the price was \$24.75 per pair. He asked how they arrived at such an exorbitant figure, and was told, \$23.50 for the shoes

and \$1.25 tax, and further, that leather was higher and that they had to pay at the factory double, and even more, the cost of former prices paid to their various classes of employees who made the shoes; whereupon he told the clerk to keep the shoes, as he had no use for them, and went to another store, where a shoe of about the same appearance was displayed in the window for \$8.00. He tried them on, and found they were satisfactory so far as he was concerned, and then asked how it happened that in the other store he had been asked the larger price. The clerk replied that the other store which carried a higher grade of goods, did, in fact, have a slightly better grade of leather, but that all of the costs in the manufacture at the factory were exactly the same for the reason that the various unions adjusted and settled that matter, so that all of the difference above \$8.00, except for the better grade of leather and tax, was on account of "easy money."

And I might go on with many similar illustrations of actual occurrences. Profiteering gets no farther than the other party is willing to permit it, or deliberately aids and abets it by his patronage.

Profiteering? Yes, that is the word if we wish to use it, and I know of no reason why railroad men should be segregated from every other class, while the grab for increased wages to keep up with the increasing high cost of living is going on; and as compared with the so-called profiteering of certain other classes, the railroad men are the veriest pikers, and have not yet learned even the rudiments of the act.

The only plea upon which such conduct might be justified is that it is the spirit of the times, and that we are living in these times, and following the old adage, of "When in Rome, do as the Romans do." But this is no answer, and I do not approve nor adopt any such principle, and do not, by any means, excuse nor justify the vicious circle.

The present situation will not continue. Unquestionably, and as surely as the fact that we are sitting in this room, prices and wages will come down. Everybody knows that, and believes it, and will welcome the time. I will say, however, right here, that I do not believe that, at least for some time to come, the wages will fall, generally, to the pre-war level.

History repeats itself, and I will read to you an abstract from an editorial appearing in yesterday morning's "Sun"; it is a quo-

tation taken from Colonel Emmons Clark's "History of the Seventh Regiment" (1890: published by the Regiment):

The inflation of the currency of the country during the war (1861-65) and the consequent extraordinary speculation and increase in nominal values terminated in a great financial panic in 1873, which prostrated business, undermined credit and deranged the channels of trade and commerce.

Habits of extravagance had been acquired by all classes of the people, and none cheerfully submitted to a reduction of income and to the enforced economy which were the natural results of the great change in the financial and business affairs of the country.

For many years labor had been in great demand, and had been extravagantly rewarded, and by means of trade societies had been able to dictate terms to employers.

But with the prostration of business the supply of labor exceeded the demand; the reduction in wages was stoutly resisted, and the year 1877 witnessed a general strike among the railroad employees of the country which threatened to entirely paralyze trade and to result in great sacrifice of life and property.

The idle and vicious hastened to enlist under the banners of those who demanded higher wages, and by riotous demonstrations and by acts of pillage and wanton destruction brought discredit upon honest labor.

The communists, largely recruited of late from Europe, also availed themselves of the opportunity to swell the excitement and in threatening language to promulgate their theories of liberty and equality.

In many cities the mob obtained complete control and successfully resisted the civil authorities and the military ordered to their support.

The small number of regular troops, the entire absence of organized militia in some States and the inefficiency of local troops in many cases or their sympathy with the rioters left a large part of the country exposed to the dangers incident to periods of disorder.

About the first of August peace was restored, * * * * *, generally by fatigue, exhaustion and reaction which naturally follow a prolonged disturbance.

Dozens of our employees have said to me, "Give us back the old times and conditions, and you can have the increased wages which we have received, but which have been of no real benefit." Fundamentally, our people are sound at heart, but, of course, no one wants to be the *first* in a surrender of the present wage, and before a dollar has increased in its purchasing power.

But it *will* come, just as it *always has* come. The first step, as has so repeatedly been pointed out, should be through increased production, whereby a greater number of articles or units or the larger volume of output shall be secured at no considerably increased cost of production.

I will not take the time to go into the general details of this problem, other than to say that since the only article which railroad men produce is *transportation*, there must be in this, as well as in other lines, a greater production at a no greater cost. And to this end, the men, or their leaders who advise them, must desist from their efforts to limit increased production

through such methods as demanding the shortening of trains to fifty cars, or of speeding up of slow freight to a standard of miles per hour, which they know better than anyone else cannot be secured or maintained except by *lessening the load*, which defeats the possibility of a lesser cost per unit, which the increased size of locomotives and greater length of trains were designed to effect.

In a democratic form of government, we give up some of our individual rights and wishes or preferences for the good of the many; and in this matter of increased production, the railroad men must join with their brother co-laborers in other fields, and each do their part in this direction, in order that all may benefit thereby. If this is not done, then in no other way, except by an immediate and direct cut in wages, will it be possible to secure lower freight rates, and although a freight rate is but an infinitesimal part of the price of, for example, a pair of shoes, it has its effect, and in the aggregate, when all other crafts must similarly be advanced to meet on their part even such an infinitesimal amount, the aggregate becomes a very large sum.

In a recent editorial in the "Sun," there appeared the following:

As a matter of cold, hard fact the railroads never underpaid their labor and their labor never tried to pillage the railroads until the Government began to take out of the hands of the railroads the duties and functions which belonged to the railroads.

As a matter of cold, hard fact the American railway system never mortgaged its body, life and soul to gratify the exactions while stimulating the excesses of labor union leaders. It was the Government itself, after it took the railroads away from their owners, which did that very thing as a gross political gamble.

I quote these two paragraphs for the reason that, as I have previously stated, there is a cause or reason for every subsequent effect.

By an Act of Congress authorizing him to do so, the President by proclamation, took possession and assumed control of the principal lines in the United States at 12 o'clock Monday, December 28, 1917; and in his statement accompanying the proclamation, he said, among other declarations, that—

The Secretary of War and I are agreed that all the circumstances being taken into consideration, the best results can be obtained under the immediate executive direction of the Honorable William G. McAdoo, whose practical experience peculiarly fits him for the service. * * *

I call upon the gentlemen present here to-day to bear witness to the fact that in every successful enterprise, be it commercial,

social, financial, political, military, agricultural, or otherwise, of which they may have had any personal knowledge, there is, and of necessity must be, at its head a master mind, thoroughly competent to manage and direct its affairs, and around which revolves the entire organization.

When taken over by the Government, there were approximately 1,300 Railroad Companies, with about 260,000 miles of railroad, worth between 18 and 20 billions of dollars, represented by 9 billion dollars of stock, and owned by 650,000 shareholders. For several years we had in this country heard much about the wasteful extravagances and incompetency of railroad management, and that a million dollars a day might be saved, and so on and so forth, that there had come to be in the minds of many people an idea that if the Government might take over and run the railroads, all of this much-to-be-desired improvement would result.

It was in the railway fiscal year 1911, that Louis D. Brandeis made famous the proposition that by scientific management the railways could save one million dollars a day. At that time the operating expenses of the railways were \$5,250,000 a day, wages being \$3,311,000 a day.

The first year of operation by the United States Railroad Administration ended on January 1, 1919. Operating expenses had grown to \$11,300,000 a day, wages being \$7,500,000 a day. Since which time, with the further increases that have been made, and costs of material being no less, both expenses and wages are correspondingly greater.

And now we come back again to the two paragraphs. If the substance thereof is true, or only half true, what is the reason? In my opinion, there is only one answer: Blundering, bungling incapacity in high places.

A blunder is to move or act blindly, stupidly or without direction, or steady guidance, and such conduct is compatible with the inexperience of childhood, and which is more often than otherwise, laughingly excused for that reason. But there are shades or degrees of blunders! Thus there is error, which is a wandering from truth, primarily in impression, judgment, or calculation, and by extension of the idea in conduct. Again, there is mistake, which is the false judgment or choice, and does not, as error sometimes does, imply moral obliquity. Now that we have had practical experience with it, we can note the blun-

dering that has taken place under the mistaken impression that it was the real article in railroading. Also, the blundering in the dissipation of the \$500,000,000 revolving fund.

Further, the bungling of the wage demands which, because of failure to comprehend the question, resulted in absurd readjustments and the granting of schedules of wages for certain classes without due regard to the character of the service performed, thus establishing inappropriate and extravagant measures of compensation that caused discontent in other classes.

And again, the bungling in the handling of the railroad labor problem. With the advent of the Director General a very extensive system was inaugurated for handling railroad wage and labor problems; which reminds me of another true story which transpired several years ago, when a new Vice President in charge of Operation, entered the service of an old railroad system which was running along in fairly smooth shape. In addition to inaugurating a large number of so-called reforms, patterned after the railroad upon which he had previously been employed, he thought it necessary to purchase a new 100-ton steel wrecking derrick, to replace the old derrick, with its wooden masts and light capacity booms,—upon which the comment was very shortly thereafter made, “Well, by G——, he’s had use for that derrick every minute of the time since.”

Many years ago a gentleman who had written ably and argued plausibly on the difficulties which as of that day confronted the railroads, was rewarded for his efforts by being elected President of one of our railroads. I will not go into the details of what occurred, but the verdict given after his demonstrated failure and removal from office, was that, “He had attempted to run the railroad with girl stenographers and college graduates.” It was simply a case of inexperience vs. practical experience, and of the square peg in the round hole.

It is estimated that there are employed in all grades, lines of service, and in various capacities upon the railroads, approximately 2,000,000 persons, or about 2 per cent. of the total population of the country, and of this number, prior to the government’s taking over the railroads as an alleged war necessity, probably not to exceed 400,000 were organized and members of the then existing brotherhoods and other railroad organizations.

Immediately—with the advent of the Railroad Administration—the greatest campaign of organization ever known became

effective. Ten new organizations have been formed and others are in process. The passage of the Adamson Law in 1916, with its hitherto unknown feature of back pay allowances, involving vast sums of money, was a sufficient example and allurements.

The Director General even capitalized the novelty when as Secretary of the Treasury he appealed to the men to invest the money in Liberty Loan Bonds, the campaign for which was going on.

The great Pennsylvania Railroad, which had always paid its employees the highest going rates, and whose shop men had never found it either necessary or desirable to organize, was unionized from end to end; and from the great Altoona shops, always non-union, came a telegram to the Director General conveying its felicitation and announcing that McAdoo Lodge No. 1, Brotherhood of Boilermakers, had received its charter. What is true of the Pennsylvania Railroad, is equally true of all the others.

Like the 100-ton derrick, the Labor and Wage Adjustment Board had had its full 100 per cent. of service ever since its creation, and the orders, interpretations, supplements, and interpretations of supplements, etc., have been issued in such volume that it is currently reported that the men themselves do not understand, and in many cases cannot calculate the wages they are supposed to receive thereunder.

The rank and file of employees have never asked, and do not want a place on the Board of Directors. It involves the responsibility which comes only with ownership; and as to the success or failure of the enterprise, a labor leader here in New York recently stated that the financial difficulty which confronted the company was of no concern to the men, and that a receiver's wages were just as good and acceptable, as the company's. What the men want is a voice in the matter of their wages and conditions of employment, and this they already enjoy.

And the word which has been passed around is that the men would prefer the simple and direct form of negotiation with their own officers, who understand local conditions, and have a sympathetic interest in their welfare and in adjusting their working conditions, so as to make possible the greatest degree of comfort and happiness in their home lives. This arrangement does not at all preclude the possibilities of usefulness of their existing organizations.

In the hands of sober-minded, serious-thinking men serving as officers of their local organization, there is quick and immediate action possible in reaching a mutual understanding in those cases where such a course is necessary and desirable; and in my experience I have found that the men themselves know as well, or better than the officers, who is the person or persons responsible for trouble or an accident, and whether the discipline which is applied is merited and well deserved, or whether there has been a miscarriage of justice, and a man not guilty has been punished.

And I will say further, that I have never known of a case where sure and swift discipline was properly applied, with the element of mercy interjected, as should always be the case by reason of the third party,—the man's family, if he has one—being made a co-sufferer,—that it has not had the endorsement of the men themselves; and the most that the grievance committee will undertake is to ask for as much leniency as in the opinion of the officers the seriousness of the offense may permit.

Now, a few remarks on the subject of pending labor legislation:

In my opinion, the provisions of the original Esch Bill concerning labor adjustments are impractical and impossible, and I confidently predict their failure and ultimate discard. Any system which requires the President to appoint members upon a board or commission at once opens the door for "deserving politicians," and is fatal to real accomplishment.

The problems involved are great, but they could be met successfully if there were a disposition to apply to them the knowledge gained in the school of experience. But instead of profiting thereby, most of our politicians are either trimming, or are openly following dreamers, who having no proper conception of the magnitude of their task or the perils invited, propose, in effect, nothing better than government ownership, with its inevitable results of debt, extravagance, spoils, favoritism and inefficiency.

All over the world the difficulties with respect to the labor problem are practically alike. In England there is controversy between the Government and the labor leaders over the Temporary Wage Regulation Act, which, in its provision for—

The establishment by the Government of an Industrial Arbitration Board, whose decisions shall be final and binding against any subsequent actions, such as strikes and lockouts; also, that the unions shall agree to

refer all disputes to this tribunal, with penalties for failure ranging from sequestration of funds and liability of officers and members to prosecution, to validating the provisions of the Trades Disputes Act in certain eventualities,

and which, in its ramifications, endeavors in its fashion to meet the like situations as they have arisen in our own country.

A recent dispatch from Washington is to the effect that Senator Cummins says he contemplates an extension of the anti-strike provision in his bill to the basic industries of the United States, including the production of fuel, iron and steel, foodstuffs, lumber and building materials, and clothing.

An ancient law giver who had handed down to the people a new system of law, was asked why he provided no punishment for one who should slay his parent, made reply that he had not provided a penalty for such an act, as he did not contemplate that anyone would do such a thing.

And this suggests to me a thought that as continuity of service is what the people of this country desire, and intend to have, and by the various enactments which have bound capital when engaged in the business of transportation in such a way that it may not escape or stop or cease in its performance, we might, with plausibility, assume with the ancient law giver, that when labor enters into the business of furnishing its necessary part in the performance of transportation, and with a full knowledge of the situation at the time it so enters, there shall be no necessity to provide an anti-strike law, for no one contemplates that labor having entered such service, a penalty for such a crime will be necessary, and that the sacred principle of *continuity of service* is assumed alike by capital and labor when they come together in the quasi-public service of furnishing transportation.

Manifestly, no man may be compelled to labor against his will, for unless he be a convict in a penal institution, it would be enslavement. In a recent proposition of somewhat similar nature wherein a few members of a society refused to act in concord with the society as a whole, someone made the suggestion that, "There were birds which could sing, but who wouldn't sing, and the thing to do was to make them sing," and the way to accomplish this was by setting the other members of the society upon them, and through the medium of persuasion and the effect of public sentiment, inducing the recalcitrants to change their views or else get out!

Someone has suggested profit sharing as the panacea, but I

am entirely opposed to that plan, or any other paternalistic method; and it is also clear that a large majority of labor leaders and their lawyers do not want it.

What labor desires, as is evidenced in every controversy, and in all of the wage adjustments at Washington, is the certainty of *fixed wages!*

If profit sharing is established, they feel that gradually the equity of sharing losses, as well as profits, will be forced upon them, and that in adjusting wage scales the sharing of profits will be a factor tending to lower the fixed wage; that by even sharing profits without sharing losses, they become, in a sense, co-partners, but if not, they would clearly be joint adventurers with capital, and thus constitutionally become subject to the same regulations as capital and its owners.

The enactment of the Adamson law was a grave mistake; it is class legislation pure and simple. All class legislation is pernicious, and has no place in a democracy, and wherever it exists it should be wiped out. We hear judges repeatedly charge juries that the parties to the suit or proceedings are equal in the eye of the law and each entitled to exactly the same measure of justice. This is but repeating in different words a declaration of our bill of rights. Apparently exceptions have been engrafted on this doctrine in the shape of class legislation, enacted by way of exemptions or prohibitions tacked to enactments. They should be wiped out from top to bottom, including all exemptions from taxation, and freedom from services.

It is declared that there shall be no taxation without representation. Very well; but there must also be a rule that there shall be no representation without taxation, and no representation without service. This, of course, will tax charitable, religious, educational and kindred activities. This is intended, and it will serve a helpful purpose in promoting thought activity and greater service. Exemptions are nothing more than a subsidy, and, like all subsidies, insidious, leading to laxity and inertia and other disorders that need not be enumerated.

Several years ago I clipped the following paragraphs which appeared in one of our leading papers:

The country really possesses a fair skeleton machinery for all the ordinary activities of life, and not a bad one for war work, if friction and obstruction did not develop from individual dilatoriness, conceit, and perversity.

The solution of the existing difficulties is to be found, we believe, in using the existing facilities fully and intelligently, and in the natural way,

rather than in distorting them to novel uses, for which they are not adapted, or in creating improvised instruments and methods, necessarily crude and hasty, to perform functions that have been carried on for years satisfactorily in the old way.

We take it there are men of ability and experience in the United States, who are capable of meeting almost any emergency with the means at command, or by a proper evolution thereof, if their brains and energy be not paralyzed by the dictation of formalists and visionaries. Why not give the real men a chance? Why must everything be done in some new or experimental way, after a crisis has been forced by obstruction of the recognized and hitherto effectual devices?

with which I concur, and now reach my conclusion in the following summary:

(1) The relations between the railroads and their employees are *per se* generally satisfactory, or can be made so.

(2) That a large majority of the rank and file desire to have the railroads returned to their owners and former relations restored.

(3) The charge that railroad men are profiteering is no more deserved than a similar charge against practically every other class of labor might be deserved.

(4) That to do their part toward reducing the high cost of living, the employees in railroad service should actively co-operate in those efforts and measures which will increase the *volume* of transportation produced without further increasing the *cost* of production.

(5) That the taking over of the railroads by the Government as an alleged war measure was a blunder, which its now acknowledged failure demonstrates and proves.

(6) That the brotherhoods under conservative leadership can be made the medium for constructive effort to the mutual advantage of the company and its employees.

(7) That the labor provisions of the Esch Bill are impractical and impossible of accomplishment.

(8) That all class laws should be repealed.

(9) That the government should keep hands off and confine itself to its proper function of governing.

(10) And lastly, that we subscribe to and endorse the oft repeated declaration as printed in the New York "Sun," that in the conduct of business matters:

"The touch of the hand of government is the touch of death."

THE ADJUSTMENT OF LABOR CONTROVERSIES

W. N. DOAK

Vice-President Brotherhood of Railroad Trainmen

I AM indeed very glad to have this opportunity of saying a few words to the business men and business women of our country, and to try if possible, to present the labor viewpoint on certain subjects. The subject assigned me is that of wage adjustments and employment conditions on the American railroads. And if by chance, Mr. Chairman, I should happen to overlook my course and get on the time of Mr. Lee's train, I hope that you will call on Dr. Lindsay, because he was warned when he assigned this subject to me that I may get by my time. And if that does not settle the question, I shall ask Dr. Johnson and some of these good gentlemen that have served on boards of arbitration to arbitrate my case for me.

I wish to speak to you to-day, as an American citizen, from the standpoint of an American citizen, on distinctly an American question. First of all, I hope none of you will think that the gentleman, the member of Congress, expressed fully and completely the sentiments of railroad employees when he made the assertion last night that there was an attempt on the part of railroad employees to Russianize America. There is not a man, or woman among you that detests the principles of bolshevism, radicalism or anarchy more than I do. There is not one among you that will go any farther to eliminate those doctrines from our country than I will.

Fortunately I have some views on this subject that it is not necessary to apply specifically to the Plumb Plan, to Government ownership or Government control. My views will apply to any of them. I wish to speak of the experience of America in handling and adjusting labor disputes on American railways, and incidentally to draw a comparison with the experience of other countries. I hope you will bear with me for a few minutes, so that I may be able to convince you that America has had, and will continue to have, the best methods of settling these questions.

I heard President Besler refer to the English system a few minutes ago. I should not recommend that system to the United

States, because recently in Great Britain all of the railroad employees went out on a strike. That incident within itself is enough to convince you that we have something better in America.

There is no danger of having strikes on the railways in America if you will approach the labor problem from an American standpoint, and disregard the false sentiment which has been built up in this country by means of propaganda that is detrimental to the true interest of the American public. There is not one scintilla of truth, and there has not been one scintilla of truth in the reports that have been heralded over this country that there is a threatened railroad strike to compel the adoption of the Plumb Plan, or of any other plan.

I heard with great interest President Besler's statement that he was opposed to the original labor provisions of the Esch Bill. I heard a gentleman say last night, that the labor provisions of the Esch Bill as passed by the House, would not work. The proof of the pudding is the eating. That plan has worked for the last three and one-half or four years, both under private ownership and under governmental control, without a single stoppage of traffic on any of the American railroads. You doubtless heard the statement, that the Esch Bill was a piece of legislation, which, if finally enacted, would give the railroad brotherhood chiefs the whip hand and prevent the carriers from getting into court. I am extremely sorry that the gentleman, who made this remark, did not fully consider the matter before his statement was made.

After a study of all plans and all forms of mediation, conciliation and arbitration in the civilized world, I have come to the conclusion that there is only one country that handles the labor question on the railroads properly, and that country is the United States of America. There has been statement after statement carried in the press that the Dominion of Canada has something better. All you have to do is to compare the conditions in Canada under the Lemuex Act with the conditions existing in the United States under the Newlands Act and the old Erdman Act, and then you will be convinced that we had best keep the Newlands Act. There has been but one failure under the Newlands Act in the United States, and an arrangement was reached by the President and Congress which prevented a strike. At least ten per cent of the disputes investigated under the Lemuex Act resulted eventually in strikes. When the conductors and

trainmen in the Eastern territory made a concerted movement in 1910 to secure an advance in wages, involving this entire Eastern territory,—Canada as well as the United States,—we reached a settlement under the Newlands Act in the United States, and there was a strike in Canada under the Lemuex Act. That should be enough to convince you that we have had better methods.

I agree with Mr. Besler that it was a most unfortunate thing that the Adamson Law was passed, because in it Congress declared something that we never wanted Congress to declare. You say the railroad men were responsible. You have heard the story heralded over the whole country that the railroad employees held Congress up at the point of a gun. It is just the opposite, if you please. We were in this city and would have settled; possibly if we had not the show would have gone on and lasted about six hours and would have been over. The President of the United States demanded that we come to Washington. He is responsible and the Congress, for the passage of the Adamson Law; it was something that we did not ask for—did not want. But it was passed, it was carried to the courts, and the courts said it was constitutional, but no one has said and no court has said to this day how the law should be applied.

We established at that time machinery to apply the Adamson Law and that machinery functioned, as you heard Mr. Shea say last night, for a period of over ten months, and adjusted nearly 30,000 disputes, with only three deadlocks. When war was declared, and the railroads taken over by the Government, the work of applying the Adamson Act was handed over to another board. Two additional boards were created, and these boards, numbered one, two and three, made adjustments for the various classes of employees.

Board No. 1 was organized on the 8th day of April, 1918, Board No. 2 in July, and Board No. 3 in October. The three questions which caused a deadlock in the former board were settled by Board No. 1. In addition this board has settled 1500 other disputes, any one of which might have caused a strike. No dissenting opinion has been rendered by any man on the Board, and so far as the public knows and so far as I know as a member of that Board, the decisions have all been unanimous. The same thing is true of Board No. 2, and of Board No. 3. According to latest reports there has been over 3100 disputes settled by these

three boards without a dissenting vote and without a deadlock.

They say that the present Esch Bill will not work. I do not know whether it will or not, but I do know that neither the original Esch Bill, nor the Cummins Bill will work. If you want to have chaos in this country, and disturb transportation in this country, advocate and have passed such legislation as was originally contemplated in these two bills. Who is advocating anti-strike legislation, and why? We have had strikes in other industries, we have had disturbances, but we have not had trouble among the railroad employees, except for a few illegal, unauthorized strikes. Why? Simply because we have literally adhered to and are to-day advocating the principle of direct negotiation and collective bargaining between the employer and the employees.

The Esch Bill as amended declares in no uncertain, but in emphatic terms: "It shall be the duty of all carriers subject to this Act, and their agents, officers and employees, to exert every reasonable effort, and adopt every available and reasonable means to avoid interruption to the operation of a carrier subject to this Act, growing out of controversy or dispute over any question of wages, working conditions or discipline of employees." Written in the law! First of all, they must use every reasonable means, and if failure results, then they go to a board of investigation. If this board deadlocks they go to a second board. No man in this country has ever advocated more than one board in all the investigation acts that have been proposed. This bill provides for two boards and, if it is passed, the public will have the benefit of investigation by two boards before any interruption of traffic can take place.

But we hear the statement from every side: "These men have got to be tied down. You will have to enact anti-strike legislation." Such legislation was enacted in New Zealand, and throughout Australasia, with the result that there were more strikes than ever before. I am not saying that labor organizations will violate the law, but I do say to you as a correct principle of our constitution and form of government, no law can be enacted that will prevent an employee from quitting his employment. Such a law would be so contrary and obnoxious to the very spirit and intent of our form of government that it could not stand. Such a law would give you exactly what you do not want. When you give to the individual a right to do

something that you declare is illegal for a number of individuals to do, then you have mob-rule instead of legitimate organization rule in your country.

There is not a one of the railroad labor organizations but declares and enforces the rule that any member participating in an illegal or unauthorized strike will be expelled from the organization and cannot again be readmitted.

I had hoped that this question of adjusting labor disputes could be settled on some reasonable basis without agitation. I had hoped that the law providing for the return of the railroads to their owners, or whatever law may be enacted, would not deal with this labor question at all. I still hold those views. It is unnecessary—President Besler is entirely right—it is unnecessary to enact a law dealing with the labor question. But what we hear down at Washington continually is, "The public is demanding it; they have got to have something." It has kept us very busy to extract some of the teeth that have been put into the bills introduced in Congress.

Let me show you how far they have gone. We have gone through this war without the slightest labor trouble on the railroads. There has been trouble in other industries, but none on the railroads. Bills have been introduced to punish striking railroad employees by imposing penalties in the way of fines of \$500 to \$10,000 and imprisonment up to twenty years, and the last thing that was introduced a few days ago was a bill by a distinguished Senator, to have a railway army of 200,000 regular troops to operate the railroads. In other words, some are not satisfied with these many bills that have been introduced inflicting all kinds of penalties, even to the confiscation of the property of the railroad employees in the state of New York if a man goes out on a strike in the state of Florida. They want—if you will excuse the plain common every-day American language—to inaugurate a United States Constabulary, or as the steel workers in Pennsylvania state it, a United States Army of Cossacks to ride down the American people on the American railroads. Is it fair? Is it in accord with American principles? Will it stand the test? No! The people would sooner or later revolt against such laws. We will observe the law. Pass any kind of an anti-strike law you please, but we shall try to change Congress, and get the law repealed.

If you but stay away from this labor legislation, we shall get

along all right. I have the highest regard for the President of the Central Railroad of New Jersey, and the same feeling extends all the way down the line. There is no feeling between us, but some of these people would make you believe we are at one another's throats all the time. Some of the best friends I have are the executives and managing officers of these railroads. If I needed money I should go to them quicker than to anybody else. If I needed advice along business lines I should go to them. We shall get along all right together if you will let us handle our differences in our own way.

My idea is to create boards upon which employers and employees have an equal number of representatives, and let them settle these disputes. Such boards have functioned well in the past and would function well in the future. As I said before, if you cannot trust practical men to handle practical questions, how do you expect politicians to handle such questions? I am opposed to the creation of any political board—I am opposed to the government's paying any member that sits on these boards. Both sides should employ their own men, compensate them, and not let them lose their personal contact with the interests which they represent.

A government board to adjust labor disputes will not work well, because a government official cannot get into close touch with individual laborers. My experience for nearly eighteen months in handling these questions convinces me that we have the only logical, reasonable plan, and it should be continued. If no law is enacted we shall create the boards. If the labor provisions of the Esch Bill, as it stands at present, are enacted into law, I am sure that you will have a reign of peace on the railroads, and you need have no fear of labor troubles.

LABOR AND THE DEMOCRATIC CONTROL OF RAILROADS

FREDERIC C. HOWE

Director of Conference on Democratic Control of the Railroads

THE Conference on the Democratic Control of Railroads is not definitely committed to any plan. Its program differs from that of other organizations in suggesting that the railroad problem is so intimately related to the industrial life of America that there should be delay in the return of the railroads to their owners either for a definite period or indefinite period. In the interim a commission should be created, made up of all interests, financial, industrial, manufacturing, commercial, agricultural, and labor; and this commission should make a study of the railroad question, not as a railroad problem, but as an industrial problem, thinking in terms of the one hundred million people of the country—the manufacturer, the farmer, the producer—in order that the railroads of the country shall become an agency in which the emphasis is placed upon service to the entire country. The railroads should not be treated as though they were a private business, similar to a bank, a department store, a hotel, or some other private agency.

In other words, our organization is emphasizing the need of the entire country for a means of circulation, organized so that it will radiate to the smallest, most obscure village, to the smallest producer, so that he will have at hand—close at hand—a sympathetic instrument, not only for the hauling of his wealth, but the hauling of his person, wherever it should go. And we are urging upon Congress that it stay its hand, as was done in the matter of banking and currency legislation, until this critical agency, the most critical of all the agencies of the country, may be studied from this viewpoint, with the emphasis placed upon the real function which a transportation agency should perform.

I wonder, though I am not urging the government ownership of the railroads as the best way out of the present difficulty, if government operation of the railroads is as bad as we are led to believe. The statistics show that the number of people killed and injured under federal control is very much less than it was under private control. That is a gain. We are led to be-

lieve that the railroads, under government operation, have been building up a continuous deficit. That point is much emphasized; but beginning in July, the railroads turned the corner, as soon as any one had a right to expect them to. They paid the standard return, operating expenses, and everything else. In August the surplus was \$12,000,000, and in September it was \$19,000,000. Why did they not earn a surplus in the previous two years? Because the railroads during those years were run for winning the war, and Secretary McAdoo ran his trains filled with goods to the seaboard, and ran them back empty in order to get more goods. No one expected any agency during the war to do anything else but win the war. Then there was a period after that in which everything was disorganized. In some industries there were surpluses, and in others which had not yet begun to function normally there was a continuing deficit. The wage roll of the railroads was piled up over nine hundred million dollars under government operation. Does any one suppose there would have been no increases in wages under private control? They might have been less, they might have been greater; no one can tell. But in connection with that nine hundred million which we hear so much about, we do not hear that there were 145,000 employees put on for the purpose of speeding up war production.

Weeks before the government took the railroads over, there was no freight moving, as I recall it. Little, if anything, moved in New England, and scarcely anything out of Pennsylvania and the West. Within three weeks after the government took them over, something happened to that congestion. Freight again began to move, and it has been moving ever since. The months before the war—I am a commuter, and I know—there was scarcely a month, sometimes scarcely a week, when the New York dailies did not carry a headline of a smash on the New Haven. There have been no such headlines that I recall since the government took over the railroads. The other day I read, in the report of the regional directors who are actually operating the railroads, of the economies they had effected—not waste. We assume these men have been wasters, but the economies due merely to the better utilization of the physical properties totaled over two hundred million dollars, and that did not include the ten or twelve million from reduction in salaries, and many, many millions from other things. These economies may or may not have been wise. I merely mention them to suggest that government officials do not

consciously and intentionally, apparently, waste money. They are not wasters.

Not only is this true, but the railroads have been out of politics, out of politics, I mean, in the big way. Managers were able to devote themselves to railroading. They were interested, or they should have been interested, in making transportation efficient. And a large number of men found a new satisfaction, a new joy, in operating the railroads as railroads rather than as financial, speculative, monopoly interests that existed and maintained their power through continued interference with our political life. In addition, all shippers had a fair deal. They were able to get a hearing. Independent coal operators found it easy to secure cars. The same is true of shippers of food products. The freight car had no particular home. It was sent anywhere. The same was true of motive power. Freight cars were loaded more nearly to their total capacity as were freight and passenger trains. Hundreds of needless competitive passenger trains were eliminated. The best roads were used for hauling freight while other roads were used for hauling empties. Long, circuitous hauls were eliminated. Goods were routed by the most direct way possible. Terminals were consolidated. They, too, were used efficiently. Thousands of passenger offices were eliminated as were hundreds of needless officials. And only a beginning has been made in economies of this sort. For it was necessary to maintain the integrity of the private lines in view of their probable return to their owners. No one can yet estimate the economies that could ultimately be made if the Government definitely merged the 250,000 miles of railway into a single operating system.

Coming now to the specific details of the Plumb Plan, I find I differ from the suggestions that have been made that the real question is a question involving the investor, the wage-earner and the public; that we should seek to work out a plan which satisfies these three interests and then we will have a proper transportation system. That, I believe, is impossible under private control. Such a solution but continues the controversy. The main function of a railroad is transportation. Its purpose is to serve the entire community. The interests of the investor and the wage-earner are incidental to this end. This is the motive of railway operation in foreign countries, where public ownership is everywhere accepted.

Personally, I have very little interest in any transportation

adjustment which looks upon the question merely as a continuing war of interests, and I think it is possible to work out a railroad solution and a transportation solution in which those interests will function freely, naturally, collectively together, so that transportation by rail will flow as naturally and freely as by water, and in which these conflicting groups will no longer conflict. Think of the waste involved in the maintenance of forty-eight state railroad commissions, the Interstate Commerce Commission, courts, railroad attorneys and other officials, chambers of commerce and associations fighting rates. The government itself, politics, the President, our whole life, is interwoven with conflict, when it might be interwoven with co-operative, mutual effort. Until transportation in this country becomes a co-operative agency, it will not be transportation primarily—it will be something else. It will be railroading, but it will not be a function like the circulatory system of the human body, as it should be, to serve the nation. The railroads should be an agency for the producers, not an agency of capital. They should be an agency of the state, literally what they are legally said to be, charged with a public use.

While the Conference on Democratic Control is not committed to any plan, I personally accept the principles, the underlying principles, forgetting the details, of the Plumb Plan, as a means, a mechanism, an organization, by which all of the agencies and factors interested in transportation will work and function together to service; not to profits or speculation, not to strikes, not to conflict in which our railroad commissions will be involved. Conflicts in the courts will be minimized, if they do not pass away altogether.

I have only time to enumerate the other elements which feature in the Plumb Plan. It provides for a board of directors of fifteen persons, five of whom are appointed by the President to represent the public; five are selected by the operating officials and five are chosen from the classified employees. There are to be regional organizations representative of the public, of the officials and the employees. For the Plumb Plan looks to the decentralization of railroad administration so that it will come in close contact with shipper, producer and consumer.

The earnings of the railroads are to be distributed as follows:

1. Operating expenses.
2. Interest on the funded debt.

3. A sinking fund of one per cent which will retire the debt and leave the railroads in the possession of the Government in from 40 to 50 years.

4. Surplus earnings, if such exist, will be divided into two parts: one-half to the Government and the other half to the operating force. This division allots to the public one-half of the savings due to improvements in the arts and the skill of the employees, and the other half goes to the labor which produces it.

Under this plan the railroads would be operated in trust for all parties in interest of producers and consumers, for investors and workers. The motive of operation would be changed. That is all.

Columbia University is, perhaps, as efficiently managed, as a trustee corporation, as the New Haven Railroad, and the same thing is true of the social clubs in this city. It is true, I think, of the Panama Canal; it is true of hospitals. This country, as some foreigner said when he was here some time ago, cannot go wrong, because there is no country in the world in which so many people are engaged in service activities, in which the people are inspired by service psychology as they are here. Only when it comes to profit-making corporations, or industry, we immediately draw a line down the center and say, "We can only do this by letting some one, some group, make as much money as possible out of it."

The proposal of the Plumb Plan, as I understand it, and as I have heard it expounded on a number of occasions, and as it is written in the bill proposed to Congress, is only incidentally a measure for enabling the workers to get a higher wage. Personally, I am perfectly willing to see that feature of the plan washed away, except for this reason: It is a symbol, a current symbol, a token—if you will—of partnership. It is a thing that suggests to men, "Here is a means of improving your condition by more effort, by more conscience, by using all of your energies." I like it for that reason.

But an increase of wages is not the essential feature of the Plumb Plan. The essential desire of the advocates of the Plumb Plan is to propose a measure for the operation of all the transportation agencies of the country; not railroads alone, but boats upon the lakes and the rivers; not these alone, but trucks which will go out to the manufacturer and will come to the ultimate consignee, giving a service that will radiate out to the farms as the

telephone or the postoffice does, and eliminate all waste between producer and consumer.

The Plumb Plan proposes a trustee corporation just like any other corporation; it proposes that the government shall buy the railroads by the issuance of its securities against private securities. Now I have heard the suggestion that this is an unthinkable thing because of the burden, the mortgage burden, on the American people from the interest on those bonds. The American people now pay interest on these bonds, and will continue to do so, whether the railroads are privately owned or publicly owned. We escape nothing, unless we escape the interest rates in making the change, and we do probably make a substantial saving of between $4\frac{1}{2}$ per cent and $6\frac{1}{2}$ per cent interest on twenty billion dollars, that is \$400,000,000 saved at the start by this conversion.

The Plumb Plan is not a means of turning the railroads over to the workers to exploit; it is not a mere shifting of control from capital to labor. Rather, the Plumb Plan fits in with all of the traditions of America. It fits in with three centuries of expansion and development. It harmonizes with all of our experience, as it does with the foundations of our life. For during these generations men worked for themselves. They owned their own tools. They were impelled by hope. They used their mind as well as their hand. They felt that their contributions redounded in part at least to their own advantage. They were only incidental wage-earners. They were really partners, full partners, in production. And the Plumb Plan looks to the awakening of the same kind of hope among the workers; it looks to dignifying them, to elevating their self-respect, to freeing them and calling forth their imagination. This is one way to stimulate productivity. This is also one way to end strikes. For men do not strike against themselves. Partners do not strike against one another. And with 2,000,000 men organized, as I believe they could be organized, to think of transportation as a collective enterprise dependent upon the good will of the community as well as on the contributions of the employees, the frictions and conflicts which now exist would tend to pass away while the motive of operation would be service to the community. For it would be through the best and cheapest service that the earnings of the railroads and the earnings of the men would be most rapidly increased. Irrespective of other considerations the freeing of

2,000,000 men from the wage relationship and the adding of this great army to the groups of men who have some economic stake in their work would be a gain of immeasurable value to the democracy of the country.

SOME PRACTICAL ASPECTS OF THE RAILROAD PROBLEM

IVY L. LEE

Formerly Assistant to the President, Pennsylvania Railroad

HAVING had the privilege last night of sitting next to Mr. Doak at the dinner, and having listened to him this morning, I can only say that I wish our labor men in this country could continue indefinitely to be led by a man of the conservatism of view which he shows. But I would like to say this, with reference to some of his history: Mr. Doak repudiates the thought that the passage of the Adamson Law was due to the railroad employees. I shall not attempt to characterize what happened, but I recall the events, about like this:

A deadlock had arisen in New York, out of which a strike seemed probable within a very few hours, and then both sides were summoned to Washington by the President. Another deadlock resulted. The railroad managers proposed arbitration which was declined by the men; a strike order was sent out, effective, I think, the following Monday morning. The President thereupon appeared before Congress and stated to Congress that unless an act was passed embodying substantially the demands of the men for an eight-hour day, a strike would take place within a few hours.

Dropping all other business, while representatives of the Brotherhoods sat in the gallery and looked on, Congress, in almost continuous session, was able to get through this law, and have it passed and signed by the President, I think on Saturday afternoon, when the strike was to take place on Monday morning. Immediately after the law was signed, the strike order was withdrawn.

I have the most profound respect for Mr. Howe's sweetness of spirit and idealism of hope. I have heard him speak on other occasions and wish sincerely that I could share the idealism with which he looks out upon humanity.

To think of that Elysian system under which a well equipped railroad, sympathetically conducted, would be at the service of every farmer, in every remote part of the country, with a special train ready to carry his products immediately to the market in

which he would obtain the highest prices for his goods,—is a beautiful picture! And then when you think that this great service is going to be at your disposal somewhat like an elevator in an office building, free of use to all, without thought of profit to anybody, a sympathetic instrument placed at the disposal of the farmer or the merchant, it is beautiful. But let us apply a little practical thought to it.

Suppose you have a railroad system organized for “service” and not for profit. Who is to determine what and where the development of that railroad shall be? Admittedly we are a long way from having a complete railroad system in this country. Are we going to have our railroads developed by the log-rolling methods of Congress, under which Congressmen from remote regions of Oregon will bargain with Congressmen from the country districts of Maine, to have railroad development take place in their respective districts? Or are we going to do the practical, sensible, business thing, and that is to say to the money markets of the world: “The field of American development is open, and if you will risk your money we will give you a chance to realize a legitimate profit upon it.” You apply then the acid test of results to the judgment of the men who suggest solutions of your problems. It seems to me that is the practical way we must look at the matter.

But Mr. Howe says it would be a glorious thing, and he believes in America enough to believe that if the railroad employees were simply working for service that we would have a great railroad system. Now I have never, in all of this talk about service, heard anybody suggest that the railroad operatives should deny themselves anything while providing this service.

We have heard so much about the profit to the capitalist, the profit to the security holder, the profit to the one who takes his savings out of the bank and risks them in railroad enterprises; the profit to the one who, if the enterprise is a failure, loses everything, but who, if the enterprise is a success, must get unlimited profit. But we hear very little about the railroad operative who, under such a system as is suggested by Mr. Howe, and as provided for in the Plumb Plan, would have opportunity to get unusual or undue profit in the form of wages or salaries.

I want to use terms now that I do not mean to be offensive; but I do think it is important, when we object to the capitalist profiteer, that we shall have no less objection to the labor prof-

iteer. And a man who gets fifty per cent more for a day's wages than his service really entitles him to, is just as much a profiteer as the capitalist who gets fifty per cent more than he is legitimately entitled to.

I won't attempt to discuss in detail Mr. Howe's figures with reference to the Government operation of railroads. I would simply like to refer to one item. He called attention to the fact that we had 145,000 new railroad employees, and that that accounted for a large part of the wage increase. Mr. Besler alluded to the fact that the wage bill of the railroads increased from about three million dollars a day in 1916 to seven million to-day. That is an increase of 133 $\frac{1}{3}$ per cent. An increase of 145,000 employees is an increase of eight per cent, so you have had an increase of eight per cent in your employees, and an increase of 133 $\frac{1}{3}$ per cent in your wage bill. Those figures, of course, speak for themselves.

I will refer to only two other points. Mr. Besler stated, and stated very wisely, that the real demand of railroad labor is the certainty of fixed wages, and I think in that statement he emphasizes two points—not alone that the wages shall be right, but that there shall be certainty of those wages. To me the great fundamental evil in our whole system of wages to-day—if you will allow me to say so—is the absence of the certainty.

To-day everybody is employed, but we know perfectly well—and no one would agree with this more readily than Mr. Besler—that we have to look forward to a time when railroad traffic will fall off, when locomotives will be stored, when cars will be stored, when there will not be the work for the men to do, and when the men will have to be laid off. Now, that is the fundamental evil of our system, and the great desideratum at which we should aim is some kind of plan whereby in profitable, good times we shall lay aside a certain surplus out of our earnings, which will make certain that the men will be employed in bad times.

Just one other point: I heard last night, one of the speakers—the last speaker, Mr. Shea,—say that his fundamental objection to the anti-strike clauses of the Cummins Bill—and I want to say I agree with the reasoning of Mr. Doak on anti-strike legislation—and the objection of so many people, was that they had word that there was a conspiracy planned on the part of the railroad managers of the country, when the private management was restored, to reduce railroad wages.

It is unfortunate that statements of that kind should be made. Any such allegation is, of course, preposterous. The facts are, as Mr. Besler stated, that in the course of events prices will come down, there will be less work to do, and wages will inevitably come down; but that there is a conspiracy planned is a statement that ought not to need characterization. I have the pleasure of rather intimate knowledge of the operation of the railroads in this country, and intimate acquaintance with many of the men who make their policies, and I know, of personal knowledge, that such an idea as that is as foreign to their minds as it is foreign to your minds that this building will catch fire.

Let us discuss these questions in the light of reason, intelligence and conservatism, such as Mr. Besler and Mr. Doak showed, and not see red all the time, as some people are inclined to do.

DISCRIMINATIONS

WILLIAM CHURCH OSBORN,

Lawyer, New York

I AM not appearing before you today in my usual Saturday character of a farmer, although as such I might pass my compliments and kind regards to those who have so greatly increased rates upon my products. Nor am I coming before you in the character of a consumer, although as you know, each and every one of you, we might have a word or two to say to these railroad men concerning the prices that we have to pay for what we eat and what we wear. I am coming before you, as the program puts me down, as a lawyer; simply a plain lawyer who wants to analyze the facts of the railroad situation a little for your benefit. The statements are not what I think ought to be, but what I think is and will be.

For the last thirty years the process has been coming on with increasing speed, of changing the railroad business from a private industry to a public service system, and with all due respect to Mr. Lee, I think that so far as capital is concerned, the process has become complete. The right to manage the railroads and the right to make a profit out of a railroad investment have substantially been taken away from capital.

In my judgment, the temper of the people of this country, as shown by the attitude of Congress and of the Interstate Commerce Commission toward rates and by the repeated elections in the matter of street car fares, is that they do not propose to permit capital to make a profit out of a public service enterprise.

If no profit be allowed, then railroad capital in the United States will have to be hired by the public, hereafter, at such a rate of interest, with such security as the private investor will be determined to demand. What may be done with the existing capital? What sacrifices may be made of it? That in my judgment, will depend very largely upon the point of view which the public will take of how they are to obtain the capital to be subsequently needed.

We must, therefore, discriminate capital out of the game. I do not mean to say there is not going to be a lot of money made

out of the ups and downs of stocks, but from the standpoint of putting your money into a new railroad enterprise and expecting to make a profit out of it, take the advice of an aged and somewhat weary citizen on that branch of the subject. Don't.

Now, assuming that capital is down if not out. How about labor? Is labor in a public service industry on the same basis as labor in other industries? I am not sure; perhaps it is. There is this great difference, however, between a railroad employee or a postal clerk or a policeman and the employee in a productive industry. One owes a service, the other produces a profit. Strictly speaking, I cannot see that there is any such thing as "profit" in a public service industry where the rates are fixed by law. So-called profits are only savings. Hence the employees can receive for their services only what the public allows them in rates. Such employees can hardly be considered as partners.

When the Adamson Law was passed, it was in effect a request by the railroad employees, "Make me as one of thine hired servants." They accepted the Government as the arbiter of their destinies, as the fixer of their compensation, as the determiner of their position in the labor world, a very marked and fundamental change in the attitude of labor. Now, you see the railroad business is different from a business that produces. The railroad business has really, I think—as a public service business—come down to hired capital, and has got to come down to hired labor, for the reason that the prices fixed are fixed by the public.

It seems to me there is a distinct discrimination there between a public service business and any other kind of business. I am not very clear about it, but that is rather the view that has come to my mind. If that is so, are there not some serious implications with regard to the Plumb Plan, with regard to the right of the employees in a public service corporation to strike, with the relation of those employees to other branches of industry in the United States? I rather think there are. I rather think that the great public, the 98 per cent public, has interests more important than those of the 2 per cent railroad crowd.

I will tell you in brief, what I think of the situation, because I have only a moment to spare. I am inclined to think that the railroad employees should be compensated somewhat more highly than employees doing corresponding work in other branches of life. Although they have the advantage of permanency, and all but about 10 per cent have the advantage of living at or near

their own homes—I mean all except the trainmen, who constitute about 10 per cent of railroad labor—and although the railroad service, believe me, is the most interesting and fascinating service in the world, putting aside all of those considerations I still feel that railroad employees should have a somewhat higher compensation than other employees, because of the great importance to the public of maintaining that service upon the highest standards. Justice, accurate and complete justice, should be done to railroad employees, but injustice should not be done to other classes of the working people of the country. And that would be an injustice if they were placed upon an unbalanced scale, so that one class rose way above the others.

I think, consequently, that the adjustment of railroad wages is likely ultimately to take the form of a determination by a national board of a proper scale of railroad wages, taking into account not only the requests of the railroad men, but the average scale of wages in other industries throughout the United States. And that board, which I think is likely ultimately to be created, will require the wisdom of Solomon, the patience of Job, and the meekness of Moses to carry it through its task. How else are we to do it?

Mr. Shea last night, and Mr. Doak this morning, were very determined that the right to strike should be retained within their control. They were equally assuring that it would never be used. How else then, unless we are going to have the old fashioned system of contest, are we going to determine—we consumers, lawyers and farmers—how are we going to get adequate railroad pay adequately and properly determined unless it goes before some board—intelligent, wise and long-suffering?

Those few remarks are my contribution, if they can be called such, to the subject; a subject which is more likely to generate heat than light, and as I do not feel very warm about it this morning, I hope possibly I may have thrown just a slender gleam of light upon a dark situation.

THE IMPORTANCE OF THE PUBLIC INTEREST

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THE topic of the final session is "The Railroads and the Public." I shall detain you only a few moments by a word or two of introduction. This is the culminating aspect of our entire deliberations, and it is naturally so because whatever may be our particular interests, those of the public are the transcendent ones. In fact, if only we appreciated the situation thoroughly it would be seen that the ostensible interests of each of the three classes with which we have been dealing are really public in character, or as is said, affected with a public interest.

Let us take, for instance, the relation of the railroads and the shipper which was discussed yesterday. The shipper is indeed interested in securing satisfactory rates, but as was made clear, those satisfactory rates do not necessarily mean the lowest possible rates. A rate which is so low as to spell inefficiency is uneconomical and will soon react upon the public interests and ultimately upon the interests of the shipper himself. It is for that reason that we welcome for the first time in the discussion of the railroad problem the advocacy of an adequate rate, not necessarily of a minimum rate, on the part of the shippers themselves.

The second session was devoted to "The Railroads and the Investor." I prefer that term to that of "The Railroads and Their Owners." Last night, in the enthusiasm of their exuberant exposition, some of the gentlemen spoke of the owners of the railroads, meaning the private owners. Of course that is no longer the present point of view. The time when a man owned a railroad as he owned his shoe factory has gone, never to return. In the largest sense of the term it is the public that really owns the railroads, even though for purposes of convenience and desirability, it may turn over the administration, and perhaps even the control, of these arteries of commerce, to private individuals. Instead of speaking of private owners we should rather speak of the trustees of the public. It is for that reason that I welcome the choice of the term "The Railroads and the Investor." The investor is indeed entitled to a fair return on his investment, but that is a very different thing from saying that the private owner of a railway has indefeasible and exclusive rights

to their operation. So that here also you see that the real interests, even from the point of view of the investor, are the public interests rather than the purely private interests.

Finally this morning we had the pleasure of listening to the discussion of the relation of the railroads and labor. From one point of view that also represented a class interest, a selfish interest. We shall never arrive at a solution of the railway problem if we look at it only from the point of view of the class or the selfish interest. The labor interest, from a higher point of view, is also a public interest. In what can the public be more interested than in such a satisfactory labor situation as to spell not only economy and efficiency in the operation, but also such contentment in the great mass of the workers as will redound to the public advantage in the broadest sense of the term? But on the other hand if better wages and shorter hours are deemed more important by the workers than continuous and satisfactory service, not only will the public suffer, but in the end also the workers.

It is, therefore, for these reasons, that I say we shall never reach a solution of the problem that now confronts us in a more aggravated form than ever before in our history, if we continue to regard it from the separate angles of each selfish and contending interest. We find indeed a homage of lip service rendered to the higher idea by most of the contending parties. The investors say a great deal about their interest in the labor problem; but if they have to choose between adequate returns on their investments and low wages, there is not much doubt as to what they would choose. And labor does precisely the same thing. In the admirable address of Mr. Shea last night we heard some entirely sincere sentiments about the need of safeguarding the property rights of the investor. But, if it came to a showdown between a return to the capital invested and a satisfactory wage for the worker, there is little doubt as to what the decision would be.

What I want to point out in conclusion is that whatever our final answer may be—and I think this afternoon's deliberations will help us to come a little closer to a final decision, because this afternoon we are looking at the question, not from the point of view of any one of these three contending parties, the shipper, the investor or the laborer, but from the angle of the real social-economic aspects of the situation as a whole or the wider interests of the community—we shall see that in final analysis it is always

the public that has to pay. If the shipper is charged a high rate, the charges are, in the long run, added to the price of the commodities in the hands of the final consumer. If the investor does not secure an adequate return on his investment, it will necessarily have to be supplemented by some form of public aid. If the capital is not forthcoming, the railroads will not be built. We shall need, in addition to the twenty billions of capital that we now have, at least another twenty or thirty billions, before our railway system can be declared complete. If this is to be provided by private individuals, and if the investor does not get an adequate return from the rates and fares, it will have to come from the public, either in the shape of a guarantee of interest or dividends, or in the shape of a definite subsidy to make up the deficit. In either case, it is the taxpayer, the public, that will ultimately pay.

So again with the laborer. I think that the working men have made one essential and new contribution to the topic. We are all pleading for an automatic adjustment of the rate situation so that the investor will not be prejudiced. We have not yet worked out a plan, under private ownership and management, of an automatic adjustment of the wage question. The fears which, as we have learned, permeate the railway laborers today are all reducible to the lack of any such system of automatic adjustment. But if we have such an automatic adjustment, and if wages continue to rise with the cost of living, here again it is the public which must stand the burden. The investor certainly cannot do it. The public has got to do it, either through increased railway rates or through taxation to meet the deficit. And if the Government should finally be compelled to manage the railways, with a consequent probability that the profits of private management would be dissipated through an increase of ordinary expenses, we should be confronted by the same situation that we find in other forms of Government enterprise. We must choose between a higher rate to the shipper, which ultimately means increased prices to the consumer, or higher levies on the taxpayer. Accordingly, it is quite clear that after all it is the public interest which is the paramount interest and that all the contending and conflicting demands of supposedly antagonistic classes must be reduced to the higher synthesis of the public interest. From this point of view I think we shall all look forward to hearing the contributions of the day.

THE RAILROADS AND THE PUBLIC

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ONE of the chief limitations of our particular form of democracy is that the course of legislation is too often determined by special interests at the expense of the general interest. An aggressive and well organized support of or opposition to proposed legislation, even though entirely selfish in purpose, in too many instances determines legislative action in matters in which the public interest receives scant consideration. One of the wisest things Theodore Roosevelt ever said was that "the public won't take its own part." In no field of public interest has this been more apparent than in that of transportation. For a quarter of a century the railroad business in the United States has been a battle-ground for conflicting special interests. Investor, shipper, politician, and laborer have contended in turn for the privilege of exploiting the railroads for their own advantage, without regard to public considerations. Each in turn has won victories at the expense of the public, which the public has suffered much too patiently.

With the whole railroad question laid upon the table for fresh determination, it would seem that the time is opportune for the public voice to be heard and the public interest established. It might be assumed that this course of action would be taken by a Congress elected to represent the whole people, but the experience of the past does not warrant this assumption in the process of either legislation or regulation. The marvel of the situation is that, in spite of the conflict which has been waged over the railroads, they have continued to serve their public so well, at the lowest cost, with the lowest capitalization, and the greatest efficiency of any railroads in the world.

Public Stake Paramount Consideration

I feel warranted in stating that there is nothing whatever in our own experience with public ownership in this country, or in the experience of other countries, to justify an argument that it would secure better results, so I return to the conclusion that the alternative is private ownership under public regulation, but

under a public regulation conducted primarily and as completely as possible in the broad public interest. To obtain that result, it is essential that there may be a larger appreciation of the meaning of transportation in the life of our people and of the high importance of its fair and constructive treatment.

The greed of either capital or labor, the ambitions of politicians seeking an issue, the selfishness of shippers fighting to save dimes and losing dollars, the prejudices of theorists—the mistakes of the past and the animosities of the present—should not be allowed to interfere with the solution of the problem. The public stake in this situation is greater than that of any or all of the parties directly concerned and must be protected. Furthermore, the very protection of the public's interest implies justice and fair dealing to all, which cannot be assured by any other policy.

I think it may be fairly argued that the future prosperity of the people of the United States is dependent upon adequate and efficient transportation. Without proper distribution both producer and consumer must suffer. Adequate transportation cannot be obtained without credit, credit cannot be secured without earning power, earning power will not be sufficient without fair rates and just regulation.

Or, to approach the proposition from the standpoint of labor, efficient transportation is not possible without competent service, and competent service is impossible without fair wages and working conditions. Fair wages cannot be paid unless warranted by earning power, and earning power would be inadequate without fair rates.

Again, to approach the problem from the standpoint of the shipper, there will not be adequate or efficient transportation to bear his goods to market unless rates are high enough to command sufficient credit to invite capital, and pay sufficient wages to attract labor.

From every standpoint, we revert to the question of rates and, as the determination of that question lies in the hands of the public, through its duly authorized representatives, the correct solution of the problem depends upon the public understanding of it. The chief danger of the situation is that the public, through failure to understand and appreciate the importance of the problem, may permit a solution, in whole or in part opposed to the general welfare, to be worked out under the pressure of selfish interests.

Roads Vital to Domestic and Foreign Commerce

Our railroads should be taken out of the field of exploitation into that of sound economics. They present a business problem to a business people, and should be accorded a solution conceived and worked out in the same spirit as our banking system.

To-day this problem assumes even a greater importance than in the past, because of world conditions. The markets of the world lie open to American commerce and industry. If we can produce and distribute our surplus products economically so as to meet the competition of the world, we can continue American prosperity.

No factor enters into this opportunity of greater importance than inland transportation. The railroads of this country must be able to furnish the transportation which will assure the production and movement of American goods, if we are to be factors in the world's trade. Such efficiency will demand many millions of new capital, scientific regulation and operation, and the elimination of the waste and the friction which have been forced upon the railroads by governmental interference.

New capital can be attracted only upon the basis of adequate earnings and fair regulation, assuring a return which will make railroad investments and operation attractive. Neither brains nor money nor labor can be commandeered into such service or obtained without fair compensation. The railroads must have more partners and fewer creditors, more friends and fewer class exploiters.

Unless the United States safeguards its position by sound business practices, Europe liberated from war and quickened by its necessities, eventually will again command international commerce.

A non-political banking system has met our great test. Our next great step in economic progress should be toward a non-political railroad system. Only upon such a basis can we hope to maintain our prosperity through our ability to market our products. I would reemphasize this point. Every farmer, every manufacturer, every laborer, every business man in the country is vitally concerned in efficient transportation as the first necessity of commerce.

Most Vital of All Factors

But if no other factor were considered by the public, the relationship of the railroad problem to the cost of living should

arouse the keenest general interest and force an expeditious, satisfactory solution of the problem. Unfortunately, however, there seems to be an insufficient understanding of this vital factor by the majority of our people. The railroad brotherhoods, it is true, have recently attempted to call the public's attention to the connection, but they have distorted the facts to serve their own selfish purposes.

In opposing the Esch bill, the brotherhoods allege that it will validate eight billion dollars of "watered" railway capital and compel the companies to pay dividends on "shadow dollars." The spokesmen for three brotherhoods contend that the increase in rates which will be necessary to pay these dividends will "take one billion dollars away from the shippers and add from three to five billions of dollars to what the consumers pay for the necessities of life."

It is significant to note that the leader of one of the four brotherhoods declined to sign the statement in which this absurd assertion was made, frankly stating, according to report, that he did not believe the cost of living would be increased by such an amount.

As to the allegation regarding "watered" stock, it is a well known fact that since 1907 the railways have kept their accounts in the manner prescribed by the Interstate Commerce Commission, and that in the twelve years which have elapsed there has not been and could not have been any so-called "watering" of stock. If there had been eight to ten billion dollars of "watering" prior to 1907 it would have been necessary to build the 230,000 miles of railroads constructed up to that time at an average cost of only \$22,000 a mile, which was not possible—and the leaders of the brotherhoods know that as well as anyone else. The real fact is that on any fair basis of valuation there is not a dollar of "water" in railroad capital as a whole.

We must bear in mind that a very large part of the savings of the people of this country is invested in railroads, directly through ownership of stocks and bonds and indirectly through the investments of savings banks and insurance companies. Railroad credit, in fact, is at the foundation of all American credit; and railroad credit can be maintained only by allowing the railroads living rates out of which a fair return can be paid on the investment. At present the return on property investment derived from earnings of the controlled roads bids fair to be only

about three per cent, which is not only far from fair but actually a starvation rate.

It is worth noting, in this connection, that only a half dozen railway stocks now sell at par, and it has not been possible to issue a single share of new stock this year and only a very little in the last five years, although industrial stocks have been issued to the extent of more than a billion dollars. Railway shares which still pay seven per cent dividends are at a discount of from ten to twenty per cent. And under such conditions railways can finance themselves only by borrowing, and then only under exceedingly disadvantageous conditions.

Effect of Rates on Living Costs

There need be no fear of materially increasing the cost of living by allowing railroad capital a living wage, for increase in freight rates have but a slight effect on the general cost of living, as compared with other factors.

This is demonstrated, to cite only one specific example, by the fact that the item of transportation, computed from the shipping of a steer on a ranch to the selling of a pair of shoes in a retail store, enters into the cost of shoes only to the extent of twenty-five cents a pair. So, railway rates cannot be held responsible for the increase in the selling price of shoes which formerly retailed at \$5 and now cost \$12.

The cost of living began its sharpest increase late in 1915. Taking September, 1915, as parity for the wholesale price of all commodities, it is found that in July, 1917, it had reached 187. No material increase in the average freight rate of all commodities took place until August of 1917. Thus the advance from parity to 187 in the wholesale price of all commodities had taken place with freight rates practically unchanged. Freight rates advanced in August, 1917, and from that time on the increase in commodity prices was very gradual, reaching only 197 in February, 1919, an increase of only 12 points over the price in July, 1917. This would indicate that the cost of living gained its greatest headway without any increase in rates, and that this headway was not maintained at the same rate when freight charges became heavier.

The average commodity value per ton of freight carried by the railroads in 1919 has been \$119, as compared with \$56 in 1914. The average freight charge per ton has been \$2.80 this

year, as against \$2 in 1914. The percentage of the carrying charge to the value of a ton of freight has been 2.4 per cent, as contrasted with 3.6 per cent in 1914. But the increase in the cost of the average ton of freight over that of 1914 has been \$63, while the increase in the freight charges per ton has been only 80 cents, a mere pittance—and the relation of freight increase to cost increase has been only 1.3 per cent.

To sum up, out of the average increase of \$63 in the cost of a ton of freight in the five-year period of 1914 to 1919 only 80 cents was caused by increased freight charges.

These statistics unquestionably prove the negligible influence which transportation costs exert on commodity prices, and they certainly sustain the contention that a fair increase in freight rates would not materially increase the cost of living.

On the other hand, if adequate rates are not granted and the railroads are brought to the verge of bankruptcy, with the impaired service which such a plight would necessarily entail, the cost of living would inevitably mount still higher, because increased production—the only way prevailing prices can be reduced—would be impossible, due to decreased distribution facilities for raw materials; and even if possible, by virtue of some miracle, it would be in vain owing to the lack of sufficient means for distributing additional products.

Government Control a Heavy Financial Burden

There is growing agitation for reduced taxation as a means to lower the cost of living, but it is curious that in this connection little thought, apparently, has been given by the public to one of the important causes of heavy taxation, Government control of the railroads. While the net profits derived by the Government from operation of the railroads in September were \$3,390,000, the Eastern carriers earned in the first eight months of this year only \$114,000,000, as compared with a standard return, guaranteed by the Government, of \$231,000,000. In other words, the Government must pay the difference, which amounts to \$117,000,000. The earnings of the Southern roads, during the same period totaled \$50,000,000, as compared with a standard of \$89,000,000, making a deficit of \$39,000,000 for the Government. The earnings of the Western roads in the first eight months of 1919 amounted to \$163,000,000, or \$79,000,000 less than the guaranteed return. The grand total of the deficit of the

three groups from the first of the year until the end of August was \$235,000,000, which must come out of the taxpayers' pockets. The total operating deficit of the roads under Government control at the end of the calendar year is conservatively estimated as likely to be not less than \$300,000,000, while the total deficit for the two years of Government operation promises to be not less than \$500,000,000.

In this connection it is interesting to note that there has been an increase of 11 per cent in the number of employees of the roads under Government control, and an average increase in unit of compensation of 53 per cent.

These facts and figures have a far greater significance than merely to show that Government control of the roads has been expensive, when due consideration is given to their bearing on the future of the roads.

Organized labor has served notice that it will not consent to a reduction of prevailing wages. The Anderson amendment to the Esch bill was the first attempt to enforce that decree through legislative channels, for that amendment, if enacted into the railroad law which Congress is now framing, would serve to perpetuate the high wage scale put into effect on the railroads as a war measure to meet the high cost of living.

The amendment provides for the continuation of the Railway Adjustment Boards, created by Director General McAdoo, and provides that the wages which have been fixed by them shall stand. Furthermore, it provides that these cases in which the existing high wages were fixed shall not be reopened except with considerable difficulty and red-tape procedure favorable to the brotherhoods. The possibilities of these provisions are so obvious as to need no comment.

But it is absolutely certain that the railroads cannot maintain the present wage scale when they are returned to private management and the United States Treasury—or, in other words, the money of the tax-payers—is no longer available, unless the roads are permitted to earn rates commensurate with the service rendered.

Adequate Maintenance Necessary

Furthermore, the carriers must be permitted to earn enough to maintain themselves in proper physical condition. During the period of Government control they have been under-maintained, largely as a result of the war. In the pre-war period normal rail

purchases by the railroad companies consumed 3,000,000 tons of steel, and including steel track material, railroad consumption of steel was not far from 4,000,000 tons annually. But to catch up with their maintenance requirements, it is estimated, the roads need 5,000,000 tons of steel for rails alone.

It should be borne in mind, also, that orders for new equipment mean more business for scores of industries. So, as the railroads prosper business generally prospers, and, consequently, no business man can allow the railroads to be injured permanently without also endangering his own interests.

Hundreds of Millions of New Capital Needed.

It is plain that in the next few years hundreds of millions of dollars will have to be invested in the railroads. One authority recently asserted that at least six billion dollars of new capital must be invested in railroad facilities within the next three years, if the roads are to be able to handle the country's commerce satisfactorily. Most of the capital must come from the savings of the people, which can be attracted to such investment only on the basis of public confidence in the stability of railway earnings.

We should not forget, in this connection, that the railroads will have to bid for those millions in keen competition with many other borrowers who will be able and eager to pay attractive interest rates. All the world urgently needs American capital, and as has wisely been observed, "investors need not, and will not, be mendicants for the privilege of serving the public." In other words, the credit of the railroads must be restored through enlarged earning powers sufficient to enable railway securities to take rank with the best in the American market.

The paramount question then is: Will the American people deny to the transportation industry the free operation of those basic principles which have developed all American industry, and upon which future American prosperity depends?

Service Based on Reward

Efficient service can be secured only by the stimulus of adequate reward. This is true in the railroad field, as elsewhere. Neither capital nor labor will support any other programme.

Any governmental attempt to own or operate so vast a business as transportation must assuredly fail through the absence of selfish interest as an incentive to achievement, the lack of standards of efficiency, or suffering through failure to achieve them,

assured political interference, delay, waste, vacillation, and hampering limitations.

Political direction of transportation could result only in disaster. The public interest demands a transportation system with a credit which will command the funds of investors and not of taxpayers, an operating efficiency stimulated by the hope of reward, and a construction programme which will develop the resources of the country.

That these results can best be secured under private ownership and private management, subject to unified and sane public regulation, is the only conclusion justified by experience. No theory can disprove the record of facts.

The roads must be saved from these dangers which threaten them and saved immediately. Further procrastination threatens the welfare of the whole country.

The Challenge of Socialism

There is another menace to both the railroads and the country to which the American public must also awake, and that is the proposal of the railroad brotherhoods to nationalize the railroads for their particular benefit. In that proposal, socialism, for the first time in our history, seriously throws down the gage of battle nationally and demands a trial at arms. This challenge, in itself of far-reaching importance in the attempt it makes to control the great service of transportation, is of much greater significance in the definite threat that success in this field will be followed by efforts to secure the nationalization of all industry, or, in other words, a complete socialistic state.

The time has come for the citizens of this country, its business men and its laborers, its property owners and its workers, seriously to face the issue thus presented, if they are not to see their interests ruined and their property confiscated by economic experiments and social hysteria which seem to fill the air. Not since the free silver fallacy arose to threaten American business and progress has so dangerous a programme threatened our prosperity.

This bold effort to take possession of one of the nation's basic and most vital industries for the benefit of a single class, and to the assured detriment of all others, frankly discloses the wide spread of socialistic thought in this country and the danger to American institutions which it implies.

It is inconceivable that, if the American people as a whole really understood the elements in the problem presented, there could be any doubt about their solving it. The most ordinary common sense, awakened self-interest, and knowledge of human nature and human experience should quickly repudiate the fallacies inherent in the proposed Plumb plan. The danger is that public thought will not be quickened to the situation, and, through lack of understanding and organization, legislation may be forced through Congress by means of organized political pressure, backed by abundant funds for propaganda and lobbying, which will work irreparable mischief before the public is aroused to the peril.

Interests of All Classes Involved

Every element in the body politic has a stake in this situation. The man with money and the man without it are equally concerned, and the great middle class, which constitutes the majority, has its all involved. Even the railroad worker, himself, while he would undoubtedly profit temporarily by control of these properties, would in the long run be injured because of the assured failure of the plan and the economic chaos which would follow the working out of this programme.

Wall Street As Middleman

The brotherhood leaders seem to rest under the general false impression that Wall Street owns the railroads and furnishes the money for them. This is true only to the extent that Wall Street acts as the middleman in this situation. The railroads are owned, not by Wall Street, but by the millions of stockholders, bondholders, savings bank depositors, life insurance policyholders, etc., to whom railroad securities have been distributed. Wall Street does not fix the rate for money; that is fixed by economic conditions, and security offerings are based upon the price at which the public will absorb them—and that law would operate just as surely if the Government were undertaking the financial burden.

By what process could the holders of railroad securities based upon mortgages to-day be compelled to exchange these holdings or suffer their confiscation? Indeed, what right would the trustees of fiduciary institutions have to permit such sacrifices? It is absolutely certain that the Government would not have either the power or the right to work out any such financial programme.

Class Rule and Class Profiteering

Stripped of all its fine phrases and socialistic rhetoric, the Plumb plan is simply a scheme for class rule and class profiteering. It provides for government of transportation of, by, and for the railroad brotherhoods. There is no modest restraint of profit-sharing in the plan, because it turns these properties over to the employees on a practically perpetual lease under a scheme of control in which they fix the return to themselves through their power over wages, and under this lease they accept no risk of the business whatever. That is borne entirely by the Government, or stated more fairly, by the public. There is no provision for securing a fair rental for the property, no effective control of rates by public authority, and the control over wages lies in the hands of a board that the employees would directly control by a two-thirds majority, and completely control by reason of political influence.

What the consequence may be of this class control over transportation is foreshadowed by the already liberal increases which labor has secured through Government control of railroads, and the large additional advances labor is now seeking. Since 1915 railroad labor has averaged a wage increase of more than 85 per cent; more than \$1,000,000,000 has been added to the wage roll under Government direction, and demands now lie before the Government authorities for increases aggregating \$800,000,000 more. Only a few days ago the Director General of the Railroads submitted to representatives of the four railway brotherhoods an increased wage scale amounting approximately to \$3,000,000 a month.

From the broad standpoint of public interest it seems so obvious as to be beyond argument that the control of this great service of transportation should remain in the hands of the public and not be delegated to any selfish class. That mistakes have been made under previous systems of control, or lack of control, constitutes no proper argument for attempting this radical departure from the assured bounds of experience.

Only Way Solution Can Be Worked Out

The railroad situation to-day presents many real problems, but these problems cannot be solved properly in the interests of any class or under threat and force. Only patient and fair-minded study, from the viewpoint solely of the general interest, can

bring a proper solution. The securing of that solution is just as vital to the railroad brotherhoods and to labor generally as to any other interest involved, for after all they are all citizens of the United States, and only as the United States prospers as a whole can they long prosper. Continued prosperity can be based only upon sound economic and political principles, and any venture into other fields must bring disaster to all concerned.

The struggle is on between democracy and socialism. In spite of its shortcomings, we have developed in this country a system under which its people have enjoyed the greatest prosperity of any people in the world's history. To-day all the world turns to us for help, and if we jeopardize not only our own powers of service but also our own national future by departing so radically from the system which has made us great we shall be recreant to both our duty and our opportunity. Individual freedom and the incentive to success, which have built this country, cannot be forsaken without pulling down over our own heads the structure we have so proudly reared. It seems unthinkable that such a possibility could even be discussed, and yet here it faces us, not only a possibility, but a probability, unless the intelligence of the country is aroused to meet it.

On this question of Government ownership of railroads we stand to-day in the first line trenches for the protection of the private ownership of all property. If this position is lost the whole line will be seriously threatened. Men who believe in American institutions, in property rights, in orderly government, must line up in opposition to this attack, or live to regret the day of their unpreparedness.

The railroad problem is the immediate and intimate problem of all of us as citizens, and taxpayers, consumers and producers. If we are not able to solve this fundamental economic question fairly and sanely in the public interest through our duly accredited representatives, we shall have loosened the very cornerstone of our whole economic structure and must be prepared to see it tumble about us carrying disaster to special interest and general interest alike. Democracy faces the test. Can it function efficiently in such a crisis or must it learn the lesson through years of experiment and disaster? That is the question of the hour.

THE OBJECTIONS TO AN IMMEDIATE RESUMPTION OF PRIVATE OPERATION

GEORGE FOSTER PEABODY

Banker, New York

WE are all indebted to the Chairman for putting so clearly before us the foundation of the discussion this afternoon, which is really the foundation of the whole study we have before us, the interest of the public as being paramount, as being fundamental to the whole question. I wish it were possible that his very succinct expression of that might be put before the minds of the whole public because, as Mr. Sisson has pointed out, the public is indicating very slight interest in this, the most important domestic issue that has ever come before the country.

My excuse for speaking on this subject, apart from my interest in public affairs for many years, is that for more than a third of a century I have been actively engaged as a banker and railroad official, in the construction of railroads and the operation of railroads and the observance of the conditions in the relation of railroads to the public practically, and with reference to the influence in politics, of railroad corporations which, as regulation began to develop more and more, were compelled to be in politics and compelled to be in politics in the most harmful and disastrous way possible, because they necessarily worked more or less underground. They worked to influence the election or defeat of this man or that man. We cannot imagine any more harmful way of having the railroads participate in politics than the way of participation through regulation of the private corporations by the government. The railroads have long been operated for profit with public service as a secondary consideration. We all recall, as was suggested to us last evening at the dinner, the well-known phrase of a very prominent man with reference to the public's relations to the railroads just after he had sold thirty million dollars worth of railroad stocks to some people in Great Britain.

I have observed in my very considerable relations with railroads in every section of this country, Mexico and Canada, that while they do not say so publicly, it is almost of necessity the fact that the operating managers and officials of railroads feel that

sentiment in their hearts; when they dare do it they act it in their practice—"the public be damned."

I am rather surprised, as I talk with some of my associates in railroad and banking circles, and as I recall the very interesting, carefully prepared and evidently studied paper of Mr. Sisson, to observe that they are anxious and desirous to have the railroads now given back to the corporate management without all the necessary facts made public with reference to the financial conditions of the various railroads. We were told last night that something like 150,000 miles of our railroads had not earned the mortgage interest. What sort of condition is the country going to face? What conditions are the bankers going to face? What condition are the reserve funds of our banks going to be in if we have railroad bankruptcy developed? I never knew anything so full of temerity as the position of the banking interests with reference to this railroad question.

The former Director General of Railroads, not an advocate of government ownership, Mr. McAdoo, recommended five years' extension of the government control that the public might study the question, that the government might go forward to develop the good or the bad features of unification of terminals, of the diversion of traffic formerly sent over heavy grades and around curves and long routes, rather than over low grades and direct routes. There was then, on the part of the prominent and leading interests, almost unanimous opposition without any effort to develop public sentiment on the question.

I am sure that they do not realize the possible panic that might result from having these railroads turned back under the Esch Bill or the Cummins Bill or any possible bill that may be worked out in a few weeks. It is something quite too fearful to contemplate, and that at a time when our financial resources are being strained, when we are told—and it is the truth—that European nations need this one solvent country to help them in the recuperation of the world.

So when we discover that the public generally is not so very much interested, that the banking and railroad interests which ought to know this situation, are simply saying "Give them back to us," giving us no notion as to whether this railroad corporation in Illinois, this railroad corporation in Colorado, this railroad corporation in Maryland, is coming out solvent or not, it is a most amazing instance of a strange faith in the resiliency

of democracy. But it is a blind and curious faith in democracy which we find suggested constantly that politics will come in if the government continues to operate the railroads. What is politics? What is politics in a democracy? Why, it is the functioning of the people of the country, the whole people who are the democracy in the form of our government, simply for the sake of doing in a communal way the things that ought to be, and therefore *can* be, done most economically, most efficiently. We do not think of sweeping the street in front of our houses; we have the city do it. In the early days we had toll roads all over the country. We got rid of them because they were hindering the development of the industries and commerce and production of the country. A railroad is simply the complicated roadway development of industrial civilization in place of the slower simpler way. If we have any faith in democracy we must give democracy the opportunity to practice with the difficult things. One of the reasons why we have all of this activity upon the part of a few, which has brought the name "politics" to be a by-word, is that we have had a great continent to conquer. We have had great opportunities for profit from land speculation and other speculations, and the men of this country, even the laboring men, have been thinking that somehow or other they would have the chance to be Charlie Schwabs, that they would be Astors or Goelets or some other millionaire, by the good fortune of having property where a city came to be, or where a railroad came, or whatever it may be that makes certain lands specially valuable.

Now we are coming to a period where the women, who have not that particular sort of vitiated outlook on life, are coming to have a great power, and they are coming to have a greater part in the consideration of great problems. What we should have now is time, two years or more—five years I believe is a better time—to study this railroad problem that the public may know what is best. If you do not have a really intelligent, widespread public sentiment underneath your policy, whether it be private ownership or whether it be government ownership, you will have friction, and friction will ruin anything. Friction upsets any machine you have. The friction is what you try to get rid of in your motor car, even if it be a Ford, which comes the nearest to eliminating friction, I believe, of anything manufactured on a large scale; and political and economic friction must be got rid of.

We have had suggested to us by Mr. Sisson's excellent paper the dangers that there will be if we have no increase of rates, and if you observed the detail with which he suggested these dangers you would realize that it is a very complicated proposition that he suggests. Professor Johnson has pointed out to us in a very illuminating and educative way the desirability of having another board of transportation to help regulation. Regulation of a private corporation operated for profit means friction. I have been told by friends in charge of great railroad systems that in the last few years, one-third, sometimes one-half of their time was taken up with attention to the orders from the Interstate Commerce Commission and from the various Commissions in the States in which their roads operated, in order to try to avoid friction, serious friction, financial friction and every other kind.

Mr. Sisson has pointed out to you the difficulty of railroads getting credit. I think Mr. William Church Osborn, this morning, was absolutely right in saying that the public has reached the final point of view as regards the use of capital—it had no more money to lend the railroads. That is true. You have heard that six billion of dollars of new capital would be required for the maintenance and extension of the railroads. I think that is a much smaller amount than should be properly spent. It cannot be raised by any conceivable proper development of government relation to privately owned roads, at any reasonable figure. I am confident of that. What is needed by every interest is time to study and develop all the facts as to where this railroad problem is coming out, as to what will happen under certain conditions, and then have a public sentiment created that will give us a rightly-informed Congress, that will present a bill that will be discussed far and wide.

There are two bills. The Esch Bill has passed the House. The Cummins Bill will pass the Senate with such amendments as we do not now know of. No one familiar with legislation, no one familiar with such affairs, has the remotest idea that either the present Esch Bill or the Cummins Bill will be the bill finally passed. They will both go to a Conference Committee where in secret, as so much of the important legislation of the United States has been devised, a new bill in very many respects, will come out and there will be but a short time for the public to get any idea of its real thought. People will have no opportunity to have a carefully considered and carefully reasoned opinion

as to how that bill will relate itself to roads in Illinois and to roads in New England and to roads on the Pacific and to roads in the South. These regions are all different in their conditions. The cotton business is a seasonal business; the grain business is a seasonal business; the manufacturing is more or less of a seasonal business in New England.

The President then has the problem put before him. Without any clear public sentiment, without any assurance on his part as to how the public will take it, the President is called upon to veto or sign such a bill within a few weeks. It is the most amazing temerity, the lack of interest on the part of the public and the lack of really thorough effort and determination on the part of our great leaders in finance and railroad management, that they should not now ask for time in which carefully to develop the facts as to those details which are of such vital importance to the public.

You perhaps have realized already that I am not in favor of a return to private ownership. After some fifteen years of active relation to railroad management in very considerable detail, as I say, I reached the conclusion twenty years ago that it was not possible without too serious friction to have a government-regulated railroad system privately owned and with profit making related to it. So I believe we shall not go forward with the real progress in democracy until our transportation system is operated without any profit to labor or to capital, but is operated so that the man who has industry, ingenuity and power and initiative to develop and to increase the production of wealth, shall be assured that this wealth, which he is to send here and there in this country and the world, shall be transported properly and quickly and at the cheapest possible rate without any question of preference to any of his rivals.

RELATION OF PUBLIC OWNERSHIP TO DEMOCRACY AND SOCIAL JUSTICE.

ALBERT M. TODD

President Public Ownership League of America

WHAT is "democracy," and what is "social justice?" Before specifically defining these terms, let me say at once: "Democracy is the greatest thing in the world." It was that for which America was willing to enter the greatest war of history, not only in her own behalf, but in behalf of the peoples of the entire world. The President proclaimed in all his official statements, in all his speeches, and in all public documents, before and during the war, that we were called to arms to "make the world safe for *democracy*."

We believed then, as we believe now, that every citizen is rightfully summoned to defend democracy even to making "the great last sacrifice." How nobly and unselfishly our citizens responded to this call is attested by the countless graves of our heroic dead who lie in the soil of a sister republic over the seas, and nearby, "where the poppies bloom in Flanders fields." America's sacrifices for democracy are equally attested by the countless mothers and fathers whose sons will never again cross the threshold to cheer and support their old age; by the wives made lonely in widowhood; by the countless orphaned children never again to be clasped in the embrace of their father; by countless thousands who worked abroad and at home in the Red Cross; and by those other countless thousands whose services were needed to support the Army and Navy with food, clothing and munitions, on the farms and in the factories; and by those who had passed the age of military service and toil, but who gladly contributed money with which to support the needed services.

In view of the pronouncements of our Government, and the noble sacrifices of our people, shall we not recognize democracy as "the greatest thing in the world?"

Democracy's Immediate Problems

We have won the war so far as overthrowing the menace to world liberty for which a foreign autocrat had inaugurated the

conflict. We have "made the world safe for democracy" so far as American institutions were endangered by foreign ambition; yet, we today face a task and a duty no less serious than that which called us to fight a foreign foe. Our duty today is to make such further sacrifices and to take such further measures, and so carefully study the relations of public utilities to government, as shall bring us into actual possession of that democracy for which our country's heroes made their "last sacrifice," and which we supported by every power we possessed.

Democracy is the foundation of all free and just governments. It includes every civic principle which is the basis of liberty, equality of opportunity, and human happiness. It involves so many phases of human welfare that all cannot be included in this discussion. And since this meeting is considering as its special subject, legislation relative to public utilities, especially the railroads, chief attention must be given to this branch of economic democracy. But before concentrating attention upon this branch of the subject, I desire to call attention to our first great present duty which is to remove from their places of power the forces of "special privilege" which have gained control of those functions of government upon which our economic liberty and prosperity depends, so that we may become a nation free in fact as well as in name.

The problems which we now face and the duty we must meet were stated just fifty-six years ago so clearly and wisely by our martyred President Lincoln upon the field of a great battle near the close of a war which had forever settled the question of human slavery in this country, which, although it is fresh in the memory of all, is so closely related to our present condition and duty that I cannot do otherwise than recall these immortal words:

"It is for us, the living, to be dedicated to the unfinished work which they who fought here have thus far so nobly advanced. It is for us to be here dedicated to the great task remaining before us—that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion; that we here highly resolve that these dead shall not have died in vain; that this nation, under God, shall have a new birth of freedom; that government of the people, by the people, for the people, shall not perish from the earth."

Not only when speaking on a great battlefield, but, also, in addressing a personal friend by letter, this same great President, whose memory we all reverence and cherish, made another utterance equally related to the conditions we face today, saying:

"As a result of the war, corporations have been enthroned, and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands, and the republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before, even in the midst of war. God grant that my suspicions may prove groundless."

Is there a single American who has carefully studied the growth of the power of those corporations which control our great public utilities, who does not realize that the prophecy of our martyred President has already become largely true?

What really is the republic which the great President feared would be destroyed by the concentration of wealth?

A republic is the citizenship who compose it and who have organized a government, as their agency to operate the mechanism of democracy. Though the government continues to exist in its original form, if it becomes corrupted, and is operated in the interest of a class rather than in the interest of all, the republic is destroyed. There are many thoughtful and genuinely patriotic citizens who are forced to the conclusion that the railroad power, the money power, and the other forces of special privilege which have been born from these two, are now in control of the government, and that the real republic is rapidly moving towards destruction.

In view also of the fact that American citizens who desire peacefully to secure genuine democracy as the reward promised them for the sacrifices they have made, as well as those "whose zeal is not in accord with knowledge," and who advocate force, are alike denounced by "special privilege" upon every possible occasion as "un-American, and anarchistic," I wish to call the attention of the forces of special privilege to the fact that it is they themselves who have been, and still are, sowing the seeds of anarchy, and should our country be drawn into a revolution of force, which God grant may not be the case, those who are seeking through corrupt and illegal means to gain economic control of the nation, will be found to be the chief contributing cause.

If, instead of increasing their unjust, political and financial control, they will join the real friends of progress who seek to promote universal justice, the terrible calamity may be averted. In connection with this, and in order that they may cease from their attacks upon democracy, I quote again from the martyred Lincoln whom they profess to reverence, who said:

"This country and all that is within it belongs to the people who inhabit it, and whenever they shall tire of the existing form of government, they have the constitutional right to amend it, or the revolutionary right to overthrow it."

I have quoted more fully from President Lincoln than would otherwise seem necessary, were it not that these warnings were evoked by conditions which already he feared and clearly foresaw, and which since he made these appeals, have verified his fears. His prophecy already has been in part fulfilled, because special privilege has been permitted to secure the control of our great public functions. To restore Democracy, by nationalizing our great public utilities in the interest of the public good, is the great work now before us.

Similar warnings were sounded 103 years ago by Thomas Jefferson, the illustrious author of the *Declaration of Independence*, when, in a letter to George Logan, he wrote:

"I hope we shall take warning from the example of England and crush in its birth the aristocracy of our moneyed corporations which dare already to challenge our Government to trial, and bid defiance to the laws of our country."

Public Ownership and Democracy

"Real public ownership is the essence of democracy. Instead of dividing men into masters and mastered, it brings men together in a union of interest, and affords the conditions necessary for the highest traits of conscience and character."

—Prof. Frank Parsons of the Boston Law School, in "*The City for the People*."

A highly important element, and probably the first element of democracy, is the ownership by the people, and the administration by their government of all those great public services necessary for the general welfare, and especially those which either by nature or by law are monopolies. There can be no more natural and just function of government than the public ownership

and operation of those utilities and services which are of universal need for promoting general prosperity and happiness. Among those services are the transportation of our persons, our food, fuel and the various necessities of life both from farms and factories; the transmission of intelligence by telephone, telegraph, post or by any other method which human genius may in the future devise; the ownership and operation by municipalities, of street railways, gas, electricity and such other services as the citizens of any city may deem best publicly to operate.

The principles underlying democracy and public ownership may be divided into two classes. One is connected with ideal government in its relation to civil liberty and equality of opportunity. This we call "democracy," and "political justice." The other relates to providing those material things and services necessary to our welfare and happiness which we call "economic justice." Both are closely interwoven, and together form the sum of human justice which we know as "social justice," a term inclusive of all the relations of mankind in an ideal commonwealth.

Liberty and equality are essential principles of justice or "democracy" in its widest sense, as determined by social inheritance; but to analyze correctly, social relations, a broad comprehension of economic conditions is necessary. It was the desire to study questions of justice and civil liberty which led me many years ago to seek information concerning the great public utilities and their relation to national life and public welfare.

Constant and intimate relations for a number of years with the railway, telegraph, telephone, express and various other public utilities had brought valuable experiences in my business relations as manufacturer and shipper. Investigations carried on while a member of Congress added to this experience facts of an official nature. Repeated visits abroad gave opportunity to investigate personally the conditions under which public utilities were being operated in foreign lands under both public and private ownership. The last visit occupied fourteen months in the year 1912-13, during which time fourteen countries were visited. These, together with those investigated during other trips, included Austria, Bavaria, Belgium, Denmark, Egypt, England, France, Greece, Holland, Italy, Norway, Prussia, Saxony, Scotland, Sweden, and Switzerland.

Rapid Spread of Public Ownership Abroad

All of these countries, sixteen in number, publicly own and operate their telephone and telegraph systems as parts of the postal service. Ten publicly own and operate their entire railway systems, four own them in part, while only two (England and Scotland) have been operating their railroads entirely under private ownership. Upon the outbreak of the war, the government of these two countries took possession of the railroads also, and will assume actual and permanent government ownership in the near future. Russia, Japan, Australia, and New Zealand also publicly own and operate their entire railroad systems, while China, Mexico, and the countries of South America own theirs in whole or in part. All of these own their telephone and telegraph systems as well, and many countries own the majority of their municipal utilities. *The United States of America is the only nation in the world which does not publicly own and operate its telephone and telegraph systems as government functions*, and will have the unenviable distinction of being the only civilized country controlled by special privilege, should she alone decide to continue this intolerable system of "invisible government."

This tendency to be ruled by private monopoly led Ambassador Bryce in his American Commonwealth to declare: "In England we have the form of monarchy with the spirit of democracy; while in America there exists the form of democracy with the spirit and essence of monarchy." This statement is unfortunately too true, due to the fact that in England as well as in all the other countries of Europe, public utilities are largely owned and operated by the people, their operation being considered necessary and natural governmental functions. Those few minor undertakings which are allowed to be privately owned in these countries are considered as public trusts which are required to give impartial service and make full accounting to the people respecting their stewardship.

Public Ownership a Natural Government Function and Necessary to Secure Democracy and Justice

In America, on the other hand, the private monopolies which own and control the great public utilities have practically become the financial and political masters of the people, for, by means of unjust rates made possible by fictitious capitalization. dishonest

financing, and illegal practices, they have grown so powerful as largely to control law and government. By secret rates and rebates they crushed out competition and obtained monopoly. By interlocking directorates and combination of capital they have controlled or defied law and evaded regulation. Through control of much of the press and other means of public education they have influenced public opinion, largely controlling nominations and elections to public office, and ultimately directing the making and administration of law.

When a few men thus control the great functions of government, that equality of opportunity which is fundamental to democracy can not exist. There can be no function of government more natural and necessary to the promotion of general prosperity and happiness than the public ownership and operation of all those agencies which contribute to the public good and which by their nature are monopolies; and these include not only the public utilities devised by man, but many of those vast resources of nature which the Almighty placed upon and below the earth for the service of all his creatures.

Since our National Constitution was written a century and a quarter ago, human genius has harnessed nearly all the forces of nature in so many ways, that there is scarcely a function in our daily life that is not performed by them, nor a condition of life which they have not revolutionized. Then, we could speak only within the radius of our voices; now, we speak from ocean to ocean. Then courier, stage, or slow sailing boat carried our written messages; now, a few seconds suffice to encircle the globe. Then, our persons and the products of our farms and factories traveled on land at the rate of twenty miles a day; now, our fastest trains exceed a thousand.

As the Creator of the Universe gave to all mankind from the foundation of the world to the end of time, the air, the water the sunlight, the heat, the treasures of the earth with all their powers and possibilities, so it devolves upon the city, the State and the nation to preserve inviolate to its citizens the widest and freest use of these gifts for the common welfare. This cannot be done where private monopoly exists, which permits one man or a group of men to usurp the rights which belong to all.

"Liberty—Equality—Fraternity"

When first traveling in the countries of Europe in 1875 to study their social institutions as well as the masterpieces of art

and architecture, and the monuments of antiquity, I observed with interest over the entrances to public buildings and churches in France the words "LIBERTY, EQUALITY, FRATERNITY," the impressive motto of the French revolution, forced upon the world by the tyranny of existing autocracy; and when extending these travels to other countries it was interesting to observe the extent to which applied democracy was enjoyed by the people.

In order to secure indisputable evidence of the success of public ownership with which to disprove misstatements continually being made in the press, I procured during the travels referred to, a large and valuable collection of official reports and data of an absolutely authoritative nature, besides personally taking over five hundred photographs of the various utilities in operation in many countries. To this collection I added several hundred photographs taken by official photographers.

This interesting collection contains street railway tickets from many cities and countries of Europe, with fares of but one cent for moderate distances, and averaging approximately two cents for all distances. These gave superior service, from the receipts of which each city made a large profit applied for reducing taxation or swelling the fund of the "common good."

In England the very highest quality of coal gas was being supplied under municipal ownership, in some instances at rates as low as twenty-five cents per 1,000 cubic feet. And even at this rate a profit was made, owing to honest and efficient administration.

Electricity was everywhere supplied at rates lower than those charged by private companies in America, notwithstanding the fact that in most of these countries there is but little water power.

Local telephone calls were two cents, and phones in homes and office cost less than half the American rate.

Checking of baggage or parcels for storage at the railway stations was only two cents, as against ten cents in the United States. And all these public utilities were efficiently administered and gave a profit to the government. That these rates to the general public have not been established at the expense of the employees we demonstrate below.

Public Ownership Brings Justice to Labor

The rule prevailing in both municipal and national utilities in countries where public ownership exists, is that labor shall be

paid not less than the full wages accorded by private companies for like service, nor less than the amount fixed by labor unions. In many countries a minimum wage law exists for government employees upon the railroads, telegraph, telephone systems, etc., and this rule exists in principle under municipal ownership in nearly all cities.

Strikes and labor trouble of any kind are so extremely rare as to be almost unknown under public ownership, for the public has no interest nor desire to treat its own "citizen employees" otherwise than with generosity and justice. It desires to receive the best service and is glad to give a full equivalent. The sole consideration under public ownership is to secure to everyone perfect service under just conditions, while under private ownership as practiced in America the sole motive is to obtain private profit; and even where good service is given, the motive remains the same.

Under public ownership, laws and agreements are entered into providing for conciliation, arbitration, etc., by which all questions are usually settled quickly and amicably. Employees being partners in the business and enjoying the public service for themselves and their families have no motive to destroy that which tends to their own welfare. The facts already given would seem sufficient to show that a degree of social justice greater than is known elsewhere prevails where public ownership exists, for the public as consumers secure the necessities of life upon terms far more just than could be otherwise possible, while employees receive better wages and better treatment as well.

It is highly significant that the employees of our railways are unanimous for government ownership and willing to contribute to help make it a permanent success.

Public Ownership in Accord With Our Constitution

The greatest statesmen and constitutional lawyers of every democratic country agree in the view that it is not only the *right* but the *duty* of government—national, state, and municipal—to perform every function which is necessary to protect and extend the rights, opportunities, and happiness of its citizens. In fact, this was the supreme purpose of the founders of our Republic, and in order to secure and protect these rights they placed at the head of our National Constitution the following preamble:

"We, the people of the United States, in order to form a

more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and to our posterity, do ordain and establish this Constitution for the United States of America."

It must be noted that they sought to provide and secure to posterity—the people of today—all the blessings which accompany civil liberty. They hoped to secure for our people domestic tranquility, which is impossible under private railway control. The other purposes are incapable of being realized under private monopoly of transportation. Should our present lawmaking power refuse in this great crisis to provide, in letter as well as in spirit, progressive legislation necessary to carry out the fundamental principles of the Constitution, there is left an appeal to the citizenship which our martyred President, Abraham Lincoln, stated in the following words:

"This country and all its institutions belong to the people who inhabit it, and whenever they shall tire of their existing government they have the constitutional right to amend it, or the revolutionary right to overthrow it."

If, then, this principle that the will of the people should rule has found its advocates among makers of laws and constitutions throughout the centuries when the conditions of society were more simple than now, and when nations have owned and operated their own highways, post offices, etc., is it not much more natural, necessary, and just, that these same principles of public ownership should be extended under the present and more complicated conditions of society, when the various forces of nature are imperatively called upon to render service? Justice replies "Yes."

We are living in an era of evolution and revolution. Democracy must triumph over greed. That "invisible government" of private monopoly which sets at nought the will of the people through the combined power of the railways, telegraph, telephone, gas, electricity, street railways, and other public utilities, must be done away with in the name of liberty.

The Publicly Owned Railroads of Switzerland—How the Rights of the People Were Safeguarded from the Beginning and How Federal Ownership of the Swiss Railways Was Acquired

On the 7th of April, 1851, a special commission of the national council itself made an official recommendation providing for the public ownership and operation of the railways under joint government control (national and state). The national council itself refused to follow the vote of this commission, and in July, 1852, declared in favor of private ownership. The rights of the people, however, were thoroughly safeguarded both in the federal and cantonal law by abundant provisions limiting the rates of charge and profits, and providing that construction and operation should be carried out with honesty, efficiency, and economy, and that the Government at all times should have access to the records and accounts, which were to be kept in a clear and complete manner. The franchises also contemplated, from the very first, the ultimate taking over of the properties by the authorities either cantonal or federal on just terms, whenever the public decided either that the profits of the companies were too great, or that public management would insure them better service; and compelled the companies honestly to advance construction and operation, to give efficient management, and perform the service at just rates; otherwise the nation would at once exercise its rights and acquire the roads for government operation.

The government had by the year 1890 acquired rather a large control by purchase of the majority of stock in some of the most important systems. As the terms for which many of the franchises had been given to the companies would expire in the spring of 1898, the Swiss people invoked the rights which they had long enjoyed through the system of direct legislation, and by an initiatory petition demanded that the council (the members of which were already favorable to this action), should frame a bill providing for the taking over of the most important railway systems and submit this as a referendum to be voted upon at the forthcoming election.

The salient features of this bill were that the government should purchase and take over at the expiration of the franchises, the five important railway systems, approximately 1,700 English miles. The bill thus submitted to the people for their votes included every provision possible for safeguarding the public in-

terests, including the financing, the accounting, justice to employees and users, and with a system of administration founded upon a highly intelligent and practical basis. An administrative council of eleven members was provided who were to keep constantly in touch with the various cantonal governments and give careful attention to the needs of the people.

Why the Swiss Took Over Their Railways Under Public Ownership

In connection with the bill which the national council had drafted at the request of the voters to provide for public ownership of the railroads, the national council issued a message embodying the reasons which compelled it to recommend the passage of the bill. Among these reasons were the following:

1. That the unification of the systems under one head would reduce the expense of operation by doing away with useless duplication.

2. Federal operation of the lines being conducted by a single administration could provide for a better trained administrative body than a large number of private companies.

3. Since Prussia, Austria, and other states were enjoying the earnings from their publicly owned railroads which would soon place them out of debt, the Swiss railroads if privately owned could not compete with them in rates, and thus higher charges must be paid by the Swiss people.

4. The federal council also made it clear in this interesting message that continued private ownership was a menace to the political life of Switzerland, because the profits accruing from the roads left the country in the form of dividends to foreigners rather than contributing to the extension and improvement of their own railways.

5. Higher wages, reasonable hours, and better living conditions would be enjoyed by the railway employees under government ownership. Upon this subject the message also says: "Private companies, as a rule, pay high salaries for the performance of certain functions, and to make up for these expenditures they economize upon wages of common employees, who, since they are very numerous, occasion the great bulk of expenditures."

Public Ownership Submitted By Referendum to the Popular Vote and Accepted By An Overwhelming Majority

The vote on the proposition for the national acquisition of the railway system was taken on the date fixed by law, February 20, 1898. It called out an unusual number of voters. Out of 734,000 citizens having the right to vote, 570,000, in round numbers, exercised that right. This is the largest proportion of votes ever cast. The purchase law was accepted by a majority of over 200,000, the votes standing 386,634 for, to 182,718 against. The result showed an overwhelming majority in favor of national ownership.

My investigations of the practical working of this national system of railways extending over twenty years, lead to very decided convictions respecting the efficiency of this system in comparison with our own deplorable lack of efficiency. Permit me to give details respecting rates, quality of service, etc.

Swiss "Abonnement" Tickets and Regular Fares and Quality of the Various Classes of Service

The Swiss federal railroad administration issued until after the beginning of the present war, "Abonnement" (special season) tickets, good for unlimited travel on all the federal lines (1,701 miles) and on all the steamers of the Swiss lakes (Geneva, Zurich, Lucern, Neuchatel, etc.):

	1st Class	2nd Class	3rd Class
Two weeks.....	\$13.50	\$9.65	\$6.80
One month.....	21.25	14.50	10.60
Three months....	52.11	36.67	26.05
Six months.....	81.56	56.94	40.53
One year.....	129.31	90.71	64.66

Respecting the quality of service of the various classes: The native Swiss ride almost entirely (except the wealthiest) in the third class. It is clean, sanitary, and comfortable, but lacks upholstery. The second class is used largely by the wealthy Swiss and foreign tourists, including Americans, except the very wealthy, and in some cases those who desire to appear wealthy. It is practically equal to the first class in America. The first class is but very little different from the second, and in many cases

the first and second are precisely the same, the only thing which distinguishes them being the label. Both classes are often in the same car, divided with a partition, but the "poster" showing the class is often changed as circumstances require. I usually used the second class. This ticket gave me the right to travel at pleasure for six weeks, twenty-four hours daily if I desired over these highly expensive roads, for \$28.00, less than seventy cents per day! There were always reputable, intelligent and delightful people to meet, and the atmosphere seemed entirely democratic.

For regular journeys the rates per mile one way were as follows: First class, 3.2 cents; second class, 2 cents; third class, 1.6 cents.

The three classes averaged 2.3 cents per mile for single journeys, and for round trips about 1.5 cents per mile each way. Fifty-five pounds of hand luggage are allowed to be carried free in the passenger cars.

As has been already mentioned, the Swiss railways, owing to the country being almost entirely mountainous, and abounding with many chasms, requiring bridges at dizzy heights, and construction of countless tunnels being necessary, the actual cost of construction of the road is many times greater per mile than in any other country. Marvelous engineering feats have been accomplished in the construction of these roads, which have never been executed elsewhere in the world. Among these are wonderful "corkscrew" tunnels in which the trains, after crossing a chasm or canyon over a very high bridge, move around within the mountain, in spirals like those of a corkscrew or coiled springs, in order to make grades that will permit their emerging 200 or 500 feet or more at a point directly below or above the entrance, depending on the direction in which they are going. One of the most famous of these is a double corkscrew, shaped like the figure 8. Of the well known tunnels, the St. Gothard is nine miles, and the Simplon (double track), is twelve miles in length, the two costing \$21,000,000. There are over 1,000 tunnels on the Swiss Federal System.

The Higher Cost of the Swiss Railways and the Lower Fare

With the unparalleled difficulties of construction in the Alps, the actual cost of the Swiss railways must have exceeded five times that of the average of the American roads, and had they been promoted and financed under American methods the rates

of fare would naturally be five times as great as they now are. But under the honest building and management that the Swiss law required, the fares for regular trips average practically the same as in America, while the "season" tickets are only a fraction of the charges made in our country.

When the government finally took the roads over, about 1,700 miles, it paid for them approximately \$199,000,000, or \$117,000 per mile on the average, including a large mileage of tunnels and bridges averaging \$1,000,000 per mile.

A suggestive account of the purchase of these lines by the Swiss Government was prepared for the Musee Social of Paris, by its Swiss correspondent, Mr. Horace Micheli, a translation of which may be found in Volume III, No. 6, December, 1898, of the American Economic Association. Attention here is called to the protection the Swiss people enjoyed in taking over their railroads under public ownership through the constitutional and democratic right of "direct legislation," with the "initiative and referendum."

COMPARISON OF SWISS DEMOCRACY WITH AMERICAN RAILWAY AUTOCRACY

*"Division of the New World"—Two Railway Presidents Aptly
Calling Themselves "Cortez" and "Pizarro," Believing They
Had Secured the Control of the American People, Pro-
posed a Division of America Between Them*

In the investigation of the records of the Louisville & Nashville Railroad Co., letters were discovered between Milton H. Smith, president of the L. & N. Road, and Samuel Spencer, president of the Southern Railway, giving vent to their fullness of joy in having (as they thought) obtained control of America, as had Cortez and Pizarro, of the natives, four centuries ago. This aptly illustrates the illimitable ambition of railway financiers. The following from the letters of these two railroad presidents is extracted from pages 369-372 of the evidence and report of the Interstate Commerce Commission covering their investigation of the Louisville & Nashville Railroad system.

"A letter from President Smith, of the Louisville & Nashville Railroad, to President Spencer, of the Southern Railway:

(Personal and confidential)

On Pennsylvania Railroad Train No. 21,

February 22, 1896.

Samuel Spencer, Esq.,

President Southern Railway, 60 Broadway, New York City.

Dear Sir:

Pizarro.—How shall we divide the new world?

Cortez.—I will take North America and you can have all of South America, except——, and neither of us will do anything to the Isthmus without notice to and coöperation of the other.

Pizarro.—While Patagonia is not a very large or important part of the world, yet, perhaps, it is as much as I can tote.

Refer to typewritten report of our interview at Kenesaw, Ga., on October 28, 1894, and to the interviews and correspondence that have taken place since that date, and to that portion of our interview of this morning relating to the future of certain railroads that are or may be tributary or competitive with roads controlled by the L. & N. R. R. and the Southern Ry.

May it not be well to review the subject and perhaps make our understandings more specific?

Your affairs, since our interview in October, 1894, progressed with rapidity, and without, so far as I know, encountering serious difficulties. You have acquired the G. S. & F., the Atlanta & Florida, and the Central Railroad has been re-organized in accordance with your plans. I do not recall now what has been done with the Macon & Northern, nor what has been done with the G. M. & G., Macon & B'ham, and one or two other roads, altho I believe you told me that your intention was to allow the Macon & B'ham to be abandoned. The Paducah, Tenn. & Alabama and Tenn. Midland Rds. have been disposed of as anticipated. The L. & N. will not compete for the control of the B'ham, Sheffield & Tenn. River Rd., provided you will acquire it, should it become necessary to do so to prevent its extension into Birmingham, or will not permit it to get into a position where it may become a disturber. The L. & N. Rd. will not compete for the control of the Mobile & Birmingham with the expectation that you will acquire it.

* * *

I have advised Mr. Belmont of our agreement that neither party will acquire the property of the Marietta & North

Georgia Railroad Co. without the consent of the other. You may, therefore, freely communicate with him upon the subject, and I assume he will do likewise.

Yours truly,
(MILTON H. SMITH), *President.*"

"Letter from Samuel Spencer, president of the Southern Railway, to M. H. Smith, president of the Louisville & Nashville Railroad Co.

New York, February 29, 1896.

Mr. M. H. Smith,

President L. & N. R. R., Louisville, Ky.

Dear Sir: Your letter of the 22d instant.

Pizarro.—Since our last conversation, the division of the New World between us has made some progress.

Cortez.—Yes; you seem to have acquired Patagonia, and I have secured a considerable part of North America which touched my former territory, but it seems to me you have acquired a considerable neck of the Isthmus which is the connecting link between us. Was it understood that connecting links which touched both of us should be a matter of consultation before acting or not?

Pizarro.—* * * I agreed that it is desirable to renew the subject and, if practicable, to make our understanding more specific. The principles on which I think this understanding should be based are:

(1) That neither the L. & N. nor the Southern shall acquire lines in the territory of the other, and that lines connecting with or touching one and not the other shall be regarded as in the territory of the one which they connect or touch.

(2) That neither will acquire lines allied by former ownership, lease, or otherwise, to the other, and which at the moment are not controlled by reason of pending reorganizations or other cause.

(3) That neither will acquire lines which connect with or touch both, either directly or thru subordinate or controlled lines without previous consultation and, if possible, agreement.

(4) That neither will foster the construction of new lines or the completion of unfinished ones into the territory of the other, but when questions with reference to such lines arise, we shall proceed by agreement with each other, if possible.

Will you please consider this and say if such a declaration of principles is satisfactory?

* * *

Yours very truly,

S. SPENCER, *President.*"

The above correspondence disclosing the policy and purpose of our railway executives absolutely to control America is so clearly expressed as to need no comment.

American Railway Exploitation Under Private Ownership

The promotion, financing, and administration of American railroads marks a dark but impressive and instructive chapter in our country's history. It is a record of a nation's shame, which can only be fully atoned for when the American people shall have supplanted the "invisible government" of private financial autocracy with real and living democracy, by owning and operating for the common welfare all those natural functions of government necessary for the common good. Then only will America enter into her destiny and enjoy the fruition of the labors and hopes of its people. Further experimentation with regulation under the false notions of the necessity of private control, competition, initiative, etc., must be stopped in the interest of the public welfare.

It is an unpleasant task to bring before the public view the manner in which government, the press, and politics have been corrupted, and the rights of citizens, both political and economic, imperiled or destroyed; yet it is due to the American people that they know the truth, and thus be able to select and apply remedies that shall be safe and sufficient for all time, to protect and advance justice and democracy.

As our country now faces the problem as to who shall own and operate the railways in the future—private interests for private profit, or American citizens for the common good—whether the railways shall control the people or the people control the railways—and since the determination of this question by Congress will be largely based on the manner in which these public agencies have been recently administered, it is important that the history of private operation during the past 20 years be known.

While facts of recent occurrence will be most largely considered; yet it is also important to view the foundations laid many years ago on which modern railroad financing and administration have been built.

Promotion of Pacific Railways

About 1850 the government decided to make extensive surveys for a railway system to be built to the Pacific coast. After these surveys had been made at the expense of the nation, a private corporation known as the "Credit Mobilier" was formed for the purpose of privately controlling the vast system of railway transportation planned by the government. The giving over of these rights to this corporation marks the first widely known chapter in the dark history of American promotion and financing of railways. The history of this event is recorded in two congressional reports of investigations covering more than 1,300 pages. The first known as "The Poland Report" (report No. 77 of Select Committee of House of Representatives to investigate alleged "Credit Mobilier," Feb. 18, 1873, 42d Cong. 2d Sess.); and the "Wilson" report, No. 78 of "Select Committee of House of Representatives to make inquiry of the affairs of the Union Pacific Railroad Co., the Credit Mobilier of America, etc."

These disclose most important facts relating to the reckless manner in which members of Congress were bribed or influenced by promise of profit to turn over the building and ownership of these lines to a private corporation. The investigation showed that one prominent Congressman who afterwards became President of United States and two others who were nominated for the Vice Presidency were implicated in the transactions, as well as others. Time and space do not permit the recital of details, and it may be sufficient for the present to quote briefly from the conclusions reached by the investigating committees mentioned. I quote from the "Poland" report:

"But such is the tendency of the times, and the belief is far too general, that all men can be ruled by money, and that the use of such means to carry public measures is legitimate and proper. In a free government like ours we cannot expect the people will long respect the laws if they lose respect for the lawmakers."

The building of the Pacific railroads has passed into history, leaving its dark blot on our national escutcheon, only to be effaced as time rolls on, bringing with it forgetfulness. The later period, though not so notably corrupt in its flagrant and open bribery of government officials, has been equally wicked from the standpoint of its effect upon the economic welfare of our

people. One of the outstanding examples of this period is the work of the late E. H. Harriman, who starting as a small broker, by the manipulation of money and securities, without building any roads or doing any other constructive service to mankind, amassed a fortune estimated at about \$250,000,000.

Such is a brief review of railway promotion in the earlier days. We will now rapidly survey the methods used in more recent times by some of the chief bankers and railway financiers of America whose influence now extends over the entire world in controlling money, credit, and monopolies in all lines of manufacturing and commerce, as well as railroads in the United States.

Recent Refined Methods of Railway Financing and Administration—History of a Nation's Shame

During the years from 1912 to 1915 various complaints were made by shippers and the public to Congress and the Interstate Commerce Commission respecting certain illegal practices of five important systems of railways and their resulting inefficiency of service and unjust rates. Accordingly the Interstate Commerce Commission, partly on its own initiative and partly in compliance with resolutions of Congress, made investigations, and issued their official reports of findings, in the years 1913 to 1917, respecting the unlawful practices and financial transactions of five railway systems comprising approximately one-third of the country's entire mileage. The systems investigated by the Interstate Commerce Commission and reviewed herein, are:

The New York, New Haven & Hartford Railroad Co., report No. 6569; date July 11, 1914.

The Louisville & Nashville Railroad Co., report No. 4788; date February 9, 1915.

The Chicago, Rock Island & Pacific Railroad Co., report No. 6384; date July 31, 1915.

The St. Louis & San Francisco Railroad, report No. 5933, January 20, 1914.

The Cincinnati, Hamilton & Dayton Railroad Co., and the Pere Marquette Railroad Co., report No. 6833; date March 13, 1917.

These investigations were made with the most painstaking care possible, covering long periods of time, in which special agents of the commission were employed to secure information and to investigate the books and accounts. Officers of the com-

panies were summoned before the commission and several thousand pages of testimony were taken. The findings of the commission were published in their official reports mentioned, and disclose, among others, the following facts:

The evidence secured by the commission shows that *every railroad company investigated knowingly falsified its accounts*, partly in order to hide expenditures of large sums for controlling politics and elections and influencing legislation and the administration of laws; falsified the accounts respecting capital, expenses, and profits, so that the commission, in many instances, was unable to find for what purpose vast sums were expended; and in many cases the books and accounts were burned by the directors in order to hide, in so far as possible, various illegal transactions. Many of these acts were done, as the records conclusively show, by directors who are well known as among the world's most powerful financiers; yet even though many records were willfully destroyed, the commission was able to secure sufficient evidence in many cases to disclose the names, dates and facts.

In order to place these various illegal practices in systematic order before you and our people, to demonstrate the unregulatable character of this private control of a natural monopoly, and to refer readily to official evidence and the findings of the commission, they may be briefly classified as follows:

1. Extravagant speculations and purchases of worthless securities in the interests of the directors; peculations from the stockholders' money by illegal devices, accompanied by the falsifying of books and accounts and their later burning by the directors.

2. Illegally spending the stockholders' money and property to corruptly influence politics, the press, and public opinion, and to secure secrecy respecting their acts.

3. Acts to secure a monopoly against the public interest by the violation of the laws of many States as well as of the nation.

4. The organization by the railway directors of "fake" corporations, with "dummy" officers to hide the identity of real promoters, and shield them from prosecution.

5. The voting to themselves by the directors of extravagant salaries, in addition to which large sums were taken by some of these officials without warrant of law.

As the corrupt practices, falsifying of records, etc., are com-

mon to all the railroads investigated, the New Haven system investigation will suffice for all. All the extracts from the commission's report are taken verbatim from the records.

No. 6569.—In re Financial Transactions of the New York, New Haven & Hartford Railroad Co.—July 11, 1914.

“REPORT OF THE COMMISSION TO THE SENATE OF THE UNITED STATES

“By the Commission:

“The Commission has the honor to submit the following report in compliance with the resolution of the Senate dated February 7, 1914:

“Scope of the Investigation

“Public hearings were held extending over a period of 60 days of almost continuous session. Witnesses in a position to have knowledge of the transactions under scrutiny were examined. In the search for truth the Commission had to overcome many obstacles, such as the burning of books, letters, and documents and the obstinacy of witnesses who declined to testify until criminal proceedings were begun for their refusal to answer questions. The New Haven system has more than 300 subsidiary corporations in a web of entangling alliances with each other, many of which are seemingly planned, created, and manipulated by lawyers expressly retained for the purpose of concealment or deception.

“The result of our research into the financial workings of the former management of the New Haven system has been to disclose one of the most glaring instances of maladministration revealed in all the history of American railroading. In the course of the investigation many instances were uncovered of violation of the laws of different States. As pointing to violations of State laws, we have turned over the evidence concerning local occurrences in New York City to the district attorney for the proper district, and the testimony relating to irregularities in Massachusetts and Rhode Island have been laid before the proper authorities of those States. The Commission has also furnished the Department of Justice with a complete record of the testimony.

“The difficulties under which this railroad system has labored in the past are internal and wholly due to its own mismanage-

ment. Its troubles have not arisen because of regulation by governmental authority. Its greatest losses and most costly blunders were made in attempting to circumvent governmental regulation and to extend its domination beyond the limits fixed by law.

"The subject matter of this inquiry relates to the financial operation of a railroad system which, on June 30, 1903, had a total capitalization of approximately \$93,000,000, of which \$79,000,000 was stock and \$14,000,000 bonds. In the 10 years from June 30, 1903, this capitalization was increased from \$93,000,000 to \$417,000,000, exclusive of stock premiums, or an increase of \$324,000,000. Of this increase approximately \$120,000,000 was devoted to its railroad property and was expended for betterments and equipment. This leaves the sum of \$204,000,000, which was expended for operations outside of its railroad sphere. Through the expenditure of this sum this railroad system has practically monopolized the freight and passenger business in five of the States of the Union. It has acquired a monopoly of competing steamship lines and trolley systems in the section which it serves. The financial operations necessary for these acquisitions, and the losses which they have entailed, have been skillfully concealed by the juggling of money and securities from one subsidiary corporation to another.

"Significant Incidents

"Marked features and significant incidents in the loose, extravagant, and improvident administration of the finances of the New Haven as shown in this investigation are the Boston & Maine despoilment; the iniquity of the Westchester acquisition; the double price paid for the Rhode Island trolleys; the recklessness in the purchase of Connecticut and Massachusetts trolleys at prices exorbitantly in excess of their market value; the unwarranted expenditure of large amounts in 'educating public opinion'; the disposition, without knowledge of the directors, of hundreds of thousands of dollars for influencing public sentiment; the habitual payment of unitemized vouchers without any clear specification of details; the confusing interrelation of the principal company and its subsidiaries and consequent compilation of accounts; the practice of financial legerdemain in issuing large blocks of New

Haven stock for notes of the New England Navigation Co., and manipulating these securities back and forth; fictitious sales of New Haven stock to friendly parties with the design of boosting the stock and unloading on the public at the higher 'market price'; the unlawful diversion of corporate funds to political organizations; the scattering of retainers to attorneys of five States, who rendered no itemized bills for services and who conducted no litigation to which the railroad was a party; extensive use of a paid lobby in matters as to which the directors claim to have no information; the attempt to conceal utterances of the press by subsidizing reporters; payment of money and the profligate issue of free passes to legislators and their friends; the investment of \$400,000 in securities of a New England newspaper; the regular employment of political bosses in Rhode Island and other States, not for the purpose of having them perform any service but to prevent them, as Mr. Mellen expressed it, from 'becoming active on the other side'; the retention by John L. Billard of more than \$2,700,000 in a transaction in which he represented the New Haven and into which he invested not a dollar; the inability of Oakleigh Thorne to account for \$1,032,000 of the funds of the New Haven intrusted to him in carrying out the Westchester proposition; the story of Mr. Mellen as to the distribution of \$1,200,000 for the corrupt purposes in bringing about amendments of the Westchester and Port Chester franchises; the domination of all the affairs of this railroad by Mr. Morgan and Mr. Mellen and the absolute subordination of other members of the board of directors to the will of these two; the unwarranted increase of the New Haven liabilities from \$93,000,000 in 1903 to \$417,000,000 in 1913; the increase in floating notes from nothing in 1903 to approximately \$40,000,000 in 1913; the indefensible standard of business ethics and the absence of financial acumen displayed by eminent financiers in directing the destinies of this railroad in its attempt to establish a monopoly of the transportation of New England. A combination of all these has resulted in the present deplorable situation in which the affairs of this railway are involved."

Pages 35 to 41 of the report give a history of the celebrated transaction in which 18 miles of railroad in which Directors J. P. Morgan, Sr., William Rockefeller, and some promoters who

were their friends, were interested, was unloaded by them on the railroad company at a meeting kept secret from the rest of the board of directors, at which meeting President Mellen presided. This property proved to be more than worthless to the stockholders, having been operated at an annual loss of over \$1,000,000 annually, and for which their directors forced them to pay the vast sum of \$36,434,173.25.

The principal accounts respecting this transaction were kept in the office of J. P. Morgan & Co., in such a manner as to hide the purposes for which moneys were received or expended, under the title of "Special Account No. 2." Part of the accounts were kept by another banker interested in the transaction named Oakleigh Thorne, respecting whom the commission report says:

"It appeared during the progress of this investigation that the personal records of Thorne which might have shown all the details of these disbursements had been burned by him in January, 1912."

This transaction is all the more sensational since Mr. Mellen, "president" of the road, was not permitted by the directors who robbed it to the extent of millions of dollars, to know who got the money, or, as he personally wrote in the records, when smarting from the rebuffs of Mr. Morgan: "It seems that as president of the road, I should be entitled to know who got the money for the truck turned over. C. S. M."

The New York, Westchester & Boston Railway Co.

The following is from the report:

"The enormous sum of \$36,434,173.25 was expended for a road only 18.03 miles in extent, which is being operated at an annual loss of approximately \$1,250,000, and which will have to increase its earnings four and one-half fold before it can pay its operating expenses and fixed charges. It is inconceivable that this enterprise could have been entered into by the New Haven as a result of the mandates of good judgment and proper railroading.

"The Westchester acquisition was planned and executed by a special committee of the board, consisting of directors Morgan, Rockefeller, and Miller, with President Mellen as chairman. The vote appointing this committee 'on proposed competition between the Connecticut State line and Harlem River, with power,' does not disclose an intention to authorize the

buying of charters and promotion securities and the building of a new railroad, much less one at a cost of \$36,000,000. It is ambiguous and was evidently intended to conceal a secret purpose. The full board was not taken into the confidence of those directors who wanted these securities purchased, and no report was ever made by this committee placing the situation as they found it before the board.

* * *

"The report of this committee, however, was unanimously 'approved, ratified and confirmed' at the meeting of the board of November 8, 1907, at which the following directors were present: Mellen, Rockefeller, Morgan, Milner, Thayer, Brooker, Brush, Warner, Cheney, Miller, Skinner, Barney, Taft, Whittemore, Elton, Hemingway, Robertson, Robbins, and Parker.

"After this meeting of the board at which this undetailed report was ratified, Mr. Mellen went to see Mr. Morgan, and requested more information as to the expenditure of the amounts. According to Mr. Mellen's evidence, Mr. Morgan asked him if he knew who wrote the report, and upon Mr. Mellen's reply, 'Yes; Mr. Stetson wrote it,' Mr. Morgan asked him, 'Do you think you know more than Mr. Stetson?' Mr. Mellen admitted he did not, and apparently acquiesced, but took the precaution to write upon the back of his report, while still smarting under the humiliation of the interview with Mr. Morgan, the following words:

"The trouble with this is there is nothing to show who got the money for the truck turned over. I don't like the looks of it, but I don't see why the matter should not be made plain. If I had the stock and sold it, I should expect others would state they bought it of me; but that don't seem to have been the disposition here. I never have known the first thing about who originally held the securities, what they were sold for; and no one thought that I was entitled to know. Perhaps I am not. I would feel better if there were at least a disposition to let me know something more than appears in the record.

"(Signed) C. S. M."

*Dummy Companies Formed to Hide the Identity of Railroad Officials as to Their Complicity in Illegal Acts and Frauds .
on the Stockholders*

The following is from pages 45, 60 and 61 of the official report :

"Dummy Companies"

"The frequency with which dummy corporations and dummy directors appear in this record leads to the conclusion that some one high in the counsels of the New Haven had an obsession upon the subject of the utility of such sham methods. The directors of the Billard Company confessed that they were dummies and knew nothing of its operations. Why men of respectability and standing as these appear to be should lend their names as dummies passes comprehension.

"In the organization of one of the steamship companies *the young lady stenographer was made president; and a youth of 21 years of age by the name of Grover Cleveland Richards was selected as treasurer of another company.*

"Clerks and irresponsible persons were drawn upon to supply the demand for dummies in the financial joy rides by the management of the New Haven.

"Mellen's stock in the New England Investment & Securities Co. was held by James B. Brady, who testified that he was merely a dummy for Mr. Mellen. Director Skinner's stock in this same company was held by a relative and a bookkeeper in his office. Thus, throughout the entire story of deception, the New Haven management vainly endeavored to hide the true facts behind these dummy individuals and dummy corporations.

"As a matter of law, such devices are feeble and puerile, but if the master financiers behind these New Haven transactions could use these sham methods and thus give their indorsement to the availability of such crooked schemes to cover the true substance and fact of financial transactions it indicates a low state of financial morality. No condemnation can be too severe to apply to the frequent use of these companies by the New Haven."

The methods used by this railroad company, the evils resulting therefrom, are summarized by the Interstate Commerce Commission in their report from which the following quotations are made :

"Evil of Interlocking Directorates"

"A system of interlocking directorates has grown up and flourished in the past few years which has brought about combinations and intercorporate relationships not conducive to the public welfare. On the New Haven board of directors there was a representative of the Pennsylvania Railroad, which railroad owned 35,000 shares of New Haven stock; there was a representative of the New York Central, which owned 35,000 shares; there was a representative of insurance interests that owned 35,000 shares, and a representative of an express company that had a contract with the railroad; there were directors who were also directors of the Standard Oil Company, the United Steel Corporation, the Pullman Company; in fact, every other interest seemed better represented on the New Haven board than the average stockholder's interest.

"There are too many ornamental directors and too many who have such childlike faith in the man at the head that they are ready to indorse or approve anything he may do.

"The handling of bank deposits and security sales of these corporations are massed in a few hands, carrying with them a power and domination over large amounts of banking capital as well as the control of great railroad systems. These and other evils as the result of interlocking directorates are now well recognized and known, and they have been emphasized by the disclosures of this investigation.

New Haven Monopoly Corrupt

"This investigation has demonstrated that the monopoly theory of those controlling the New Haven was unsound and mischievous in its effects. To achieve such monopoly meant the reckless and scandalous expenditure of money; it meant the attempt to control public opinion; corruption of government; the attempt to pervert the political and economical instincts of the people in insolent defiance of law. Through exposure of the methods of this monopoly the invisible government which has gone far in its effort to dominate New England has been made visible. It has been clearly proven how public opinion was distorted; how officials who were needed and who could be bought were bought; how newspapers that could be subsidized were subsidized; how a college professor and publicists secretly accepted money from the New Haven while masking as a representative of a great Ameri-

can university and as the guardians of the interests of the people ; how agencies of information to the public were prostituted wherever they could be prostituted in order to carry out a scheme of private transportation monopoly imperial in its scope.

Directors Criminally Negligent

"It is inconceivable that these wrongs could have gone on without interference if the members of the board of directors had been true to the faith they owed the stockholders. A number of directors appear in many instances to have voted without knowledge and to have approved the expenditure of many millions without information. According to the testimony of some of the directors they merely approved what had been done by some committee or by some officer of the company. The directors' minutes reveal that it was largely a body for ratification and not authorization, as the law intended a board of directors should be. None of the directors would have been so careless in the handling of his own money as the evidence demonstrated they were in dealing with the money of other people. The directors actively or passively acquiesced in the efforts of the Mellen-Morgan-Rockefeller régime to extend the domination of this corporation over the whole transportation field in New England.

"If these directors who were faithless to their stewardship were held responsible in the courts and at the bar of public opinion for the failure to do those things they should have done, the lesson to directors who do not direct would be very salutary.

"Directors should be made individually liable to civil and criminal laws for the manner in which they discharge their trust. A corporation can be no better or worse than those who operate it. It should be just as grave a crime to plunder stockholders or the public through a railroad corporation as it is to personally rob an individual.

Subsidiary Corporation Condemned

"It was found in the investigation of the New Haven system that there were 336 subsidiary corporations, and the books of the New Haven road proper reflect only a small part of the actual financial transactions of the railroad. Many of these subsidiary corporations served no purpose save an evil one. They were used to cover up transactions that would not bear scrutiny, and to keep from the eyes of public officials matters that were sought to be

kept secret. The commission should have the power to examine, not only the books, records, papers and correspondence of interstate carriers, but of subsidiary companies as well.

Remedy in Public Conscience and Laws

"The insuring of honesty throughout the management of the great railroads of the country is a most important question before the people today, and only when through exposure of wrongdoing and an awakened public conscience, coupled with effective laws, this result is produced, may railroading be placed upon the high level that it should occupy. The revelations in this record make it essential for the welfare of the nation that the reckless and profligate financiering which has blighted this railroad system be ended, and until this is fully done there will be no assurance that the story of the New Haven will not be told again with the stockholders of some other railroad system as the victims."

Government ownership of our railways is desirable; it is practicable; and it is the only democratic and just solution of the railway problem, the great emergency of American reconstruction.

Please allow me in closing to quote from the statement I submitted last February before the Senate Committee on Interstate Commerce:

"If the ideals which we are seeking prevail, service, not profit—democracy, not autocracy, will rule. What we sow today we shall reap tomorrow. We look forward to the time, which we hope may be in the near future, when through the patriotism of our citizens and the continuing heroism of our soldiers, the victory which has come to our arms will here at home consummate an industrial peace that shall be wise and just to all, as one of the first fruits of the great sacrifice America has made in this world struggle. Among the fruits of such peace, those who believe in equality of opportunity, civil liberty and democracy, hold as highly essential the public ownership and operation of our railroads, our public utilities, and our natural resources, for in this way alone can control be 'of the people, by the people, and for the people.' "

GOVERNMENT OWNERSHIP THE ONLY SOLUTION

W. P. BOLAND.
Scranton, Pennsylvania

AFTER having heard many diverse views on the railroad situation I realize more than ever the need for positive action with respect to our great transportation lines. It is the greatest problem now before the people of the Nation and will, I believe, become one of the leading, if not the central element in the national campaign soon to engage the attention of the country. We must approach this proposition in a definite way. It is a business matter, entirely understandable and absolutely within the compass of the universally recognized principles of commerce and trade. We are not dealing with a mysterious or even uncertain situation. Direct and positive action, taken by men whose training and business capacity fit them for such work, will solve the railroad problem to the advantage of the people of the United States by making the railroad the servant of the people, rather than subject the Government to the service of the agencies owning the railroads.

The time has arrived for us to correct the abuses, now and for some time manifest in the railroad service of the United States. The railroad system of to-day is approximately the collective result of all the work performed in this connection since the first railroad train was moved in this country. The men who formed these different branches of railroads now practically merged, in a physical sense, into one great railroad system, had but limited capital. Their energies made the present system possible and in eliminating many of these men from our railroad service unfair treatment was accorded them.

People's Interests Paramount

We have the railroad system. Let us work now for the general welfare of the people of the Nation. The proposition is too big to be successfully handled by any group or groups of private capitalists. It is Nation-wide in scope, requirements and service, and no agency but the National Government itself can hope successfully to meet this railroad emergency and do justice to the people.

There are so many conditions associated with the railroad situation that one agency in which the people have absolute confidence must take charge. That agency is the Government. Take for instance two railroads entering New York—the Lackawanna and the Erie. The Lackawanna operates about 985 miles and the Erie operates 2,465 miles. It is fair to assume that there is two and one-half times the population tributary to the Erie and depending upon that road for service that there is to the Lackawanna. These people will in the very nature of things be the innocent sufferers of any evil results which may follow the manipulation of the affairs of either road.

You and I may be living in Elmira, N. Y. We may be building automobiles and want to sell our product to the people of Scranton or New York. We apply to the Interstate Commerce Commission for a rate and the first thing the members or agents of the Commission look at is the fixed charges of the company and then a reasonable return on the service rendered. Both roads parallel in the district I refer to. The construction cost is about the same, the equipment the same, but you will find in 1916 an interest charge against the Erie of \$4,699 a mile, and you will find an interest charge against the Lackawanna of but \$7 a mile.

Cannot Compete

How can the Erie, with its interest charges nearly 700 times as great as the Lackawanna's, meet the competition of the better financed road? Is there an agency in this country today which can solve this unfortunate railroad problem but the Government? I am giving you now a sample of railroad financial divergence which has duplicates in all parts of the country. It was contributory negligence on the part of the Government to allow these things to exist and have the railroads of the Nation made the plaything of a gambling Wall Street to the great prejudice of the business interests of the Nation and the people of the country generally.

You cannot reduce wages on the Erie sufficiently to meet Lackawanna competition; and materials and operating expenses on both roads must remain approximately at the same figure. Because of these conditions you put a charge on the shipper that forces him out of business and you penalize all the people. This condition must be met by Government ownership and proper regulation of rates and charges.

The interest of the people—the Government—are always paramount. When liquor men abused the rights conferred upon them by the government, licenses and privileges were revoked. The railroads violated their charter rights, inflated their capital and otherwise heaped fraudulent burdens upon the people and forced the Government to take them over. The Government is not taking this property without compensation, but these manipulators of railroad properties insist on having the valuation fixed at the amount of these inflated values or higher.

Capitalization Comparisons

We know that the Erie has a capitalization of \$182,240 a mile and the Lackawanna a capitalization of about \$42,000 a mile and the Great Northern about \$42,000 a mile. There is no establishment on earth able to handle such a widely diverging transportation problem but the Government.

The Government must handle this situation—readjust charges on an honest basis and wipe out useless and ruinous railroad competition. Where five railroads extend from Chicago to St. Louis two might do the work, with increased equipment, dividing that now in use by the additional three roads and the waste in superfluous management and other such charges eliminated. Under such conditions rates could be reduced and wages increased, allowing a fair return to every honest investor or making the Government returns with Federal ownership in effect entirely secure.

The Lehigh Valley parallels the Central Railroad of New Jersey from Wilkes-Barre to Bethlehem and then both roads use the Reading tracks to Philadelphia. We should eliminate two of these roads, divide the equipment and cut down unnecessary overhead charges. Agencies interested in this needless competition, bankers, money lenders, money gamblers, some lawyers and others, are the elements responsible for this condition. They made the railroads a means to improper ends to the prejudice of the people of the country. This manipulation and juggling of great transportation properties, with the business disturbance and cost to the people, was and is the great crime of this Nation and is responsible for much of the present industrial unrest and commercial instability.

Under the so-called Government control of railroad properties nothing has been more palpable than the efforts of those in charge of the roads to so befuddle the situation as to discredit Govern-

ment participation in this work. There is a persistent effort under way all of the time thus to force these roads back into private hands. The present is no sample of the kind of service which would follow Federal ownership. Competent men would be put in charge. We are a business people and can handle our railroads. In fact the same practical men who handled these roads for the private owners could do similar work for the people, but along more efficient lines, under Government ownership.

Government ownership of all public utilities is coming. Sinister agencies may through fraud, trickery and artifice delay it, but it is the logical way to handle our transportation problem and it will come.

NATIONALIZING THE RAILROADS

Consolidation Accomplished, Competition Ends, and With it Private Ownership

CALVIN TOMKINS

Ex-Member Inland Waterways Committee, National
Railroad Administration

MUCH has been written about the desirability of private versus public ownership and operation of the railroads, but there has been little discussion of what may be termed the natural history of railway development and its necessary consequence; viz., the nationalization and unification of the entire transportation system of the country.

For more than a year there has been a continuous search for an acceptable way to return the roads to their former owners, but no way of doing so has thus far been found. It is time to ask whether force of circumstances may not compel us to nationalize as other nations have done in spite of a popular wish not to do so, and in spite of temporary makeshifts like government guarantees of profits and like the pending Senate and House bills, which, while pretending to return the roads to private ownership, in reality only make the gesture of doing so.

The railroads of the country were developed by its most experienced minds through a process of intense competition which consciously had one end in view; viz., the consolidation of many roads into a few systems. For fifty years progress was made in this direction—and unconscious progress toward one system. We have reached the conclusion of this process of natural selection under government auspices, because the war precipitated that result, which was inevitable in any event.

Prior to the war, the Sherman Law, which was intended to prevent the consolidation of systems, operated to promote their bankruptcy, because of a policy of starvation which increased expenses without permitting a corresponding increase of revenue. This accelerated absorption of the weaker by the stronger roads. The war demonstrated the defects of the Sherman Law which was scrapped in 1917, and the railroads placed under one federal control for war purposes.

From the beginning, the railroad history of the country has been a record of exploitations, absorptions, expansion and bankruptcies, and then the same processes repeated over and over again, the units being larger each time. It was the lack of guarantees and the risks incurred which made railroad service in the United States so cheap at the expense of the investor. The systems were in truth gradually consolidating themselves under a regime of most intensive competition. The law of natural selection, operating freely, brought to the front the kind of men who developed our railroads and attained such remarkable results in so short a time, culminating in the greatest railroad system of the world.

The competitive conditions which produced men like Vanderbilt, Huntington, Hill and Harriman, admittedly no longer exist. How then is it possible to reinstate competitive railroad organization? Are not the proposed "regional systems," to be equipped with "regional directors," in supposed "competition" with each other, merely camouflaged semblances of the older order of real things which has passed away? Are not the proposed "zones" comparable to the several floors of a single department store, each with its respective floor manager in charge? Is not all this machinery a mere pretense which may obstruct rather than facilitate the operation of a national system already unified?

The government, by general consent, determines freight rates, wages, hours, schedules, routing, joint operation of terminals equipment and ticket offices, safety devices, issue of securities, uniform accounting, and, most important of all, credit—and there is general agreement that these governmental powers should be perpetuated. It is also cooperatively developing water transportation. Aside from the purchase of supplies (a most dangerous function under a government guarantee of profit), what is there which can be delegated to private initiative? The genius of the old time leaders was not exercised under such conditions. The objective for which they consciously and unconsciously competed has been achieved, and it follows that railroad competition is now as much a thing of the past as they are.

Private competition, having achieved consolidation and administrative unity, the old order naturally ends in monopoly either public or private, which is without initiative except as it shall be motivated by the government. Is it not then reasonable to anticipate the nationalization of the railways of the country as a

single administrative unit without prospective profit for anyone, and for the sole purpose of providing public transportation?

In truth, the present issue really is:—How can we substitute for the existing system of mixed government and private control without responsibility, a genuine policy of responsible government ownership and operation? In short, how shall the old owners be bought out and the new machinery set up?

All of the suggestions which have been made for a return of the properties to their owners contemplate a government guarantee of freight rates sufficiently high to provide for interest, dividends and the attraction of new capital. In other words, the demand is for a prospective private-service profit with a government guarantee behind it; and this in spite of the fact that real competition which should be the *quid pro quo* for such a bargain no longer exists and cannot be resuscitated.

Since, as already noted, the government is to permanently assume the essential attributes of ownership, it follows that if the properties shall be returned to their former owners for operation, a guarantee of profits must be assured before resumption of functions can safely be undertaken by them. This will be necessary since they are to take orders from the government as to how they shall operate, what they shall get and what they shall give—except as such instructions may be modified by their power to influence the government and by the power of organized labor and public opinion to influence both them and the government. In all essentials they will be “dummy” operators without responsibility but assured of profits. This outcome, if effectuated, will be as absurd as it will be unpopular and fugitive; for there is no reason to think that Congress will be any more considerate of the rights and privileges of private railroad ownership after the war than it was during the ten years preceding it. Public patience indeed tolerated poor service at comparatively high rates as a public necessity during the war and reconstruction periods. But the railroads were then, and are now being operated as a Government function, and whenever they cease to be so operated the former antagonism against private privileges and even private rights will reassert itself, both in and out of Congress. Except as a figure of speech, the railroads have already been irrevocably nationalized—but not paid for—and what the owners are demanding under verbal cover of a return to pri-

vate ownership is in reality the delegation of agency powers to operate and speculate, with assured profits and no risk.

Is not a government promise that rates shall be kept sufficiently high to recompense invested capital and to attract new capital less desirable than will be a valuation of railroad properties accompanied by a definite guarantee of interest upon them, or an exchange of railway securities for government bonds? The Federal Government must in the end hold the bag under all recommendations which can be made. Why then should it be asked for anything more than a direct interest payment or an exchange of public bonds for private securities?

A guarantee of interest is a simple, direct obligation of the government easily understood, and, if once undertaken, not likely to be avoided. The delegation of the power to initiate rate-making on a basis sufficiently remunerative to provide for all contingencies and to include a profit in addition, will be a more complicated obligation for the government to enter into and one which is much more likely to be avoided by Congress in deference to popular opposition to high rates and special privilege. Profits are elusive and will be attacked and must be defended. Interest payments on railroad securities transmuted into government bonds are definite obligations.

Have not security owners been wrongly advised to demand that the legal basis for rates shall be their vested interest in the roads regardless of changed conditions? Whether the object of this demand is really the establishment of profitable rates, or is intended to establish indirectly by statute a basis of value for subsequent expropriation, the consequence of either motive will be to raise a dangerous provocative issue against railroad security owners who will be accused of attempting to create fictitious profits and values by legislation.

Since the physical valuations of railroad properties thus far reported by the Interstate Commerce Commission are unexpectedly liberal and since the present government guarantees also afford a reasonable basis for expropriation—from the security owners' standpoint, is not the present time more propitious for appealing to Congress to take over the roads than after a protracted, unpopular and doubtful struggle to obtain largely increased rates shall have been gone through with? Director General Hines has stated that rates will not be increased during the period of federal control. Is there any reasonable ground for the belief that what

has been denied during the period of public operation for public use, will be permanently acceded to during a possible period of private operation for private profit? When private competition—that is initiative—stops, private profit should also stop, because no equivalent service is rendered in exchange. All that investors can then reasonably ask or expect, is to get back the just value of their investments after having organized service.

*Profits in Excess of Wages and Interest Not Available for Either
Labor or Capital*

The railroad employees' demand for lower living costs or higher pay and the truthful though stultifying admission that higher pay necessarily implies still higher living costs, have served to focus the attention of the country upon the necessity for promptly deciding what shall be done. Perhaps it is as well that the *impasse* into which the railroad problem has brought us should be broken through in this rough manner since apparently little progress towards solving it otherwise was being made.

The interdependent relationship between wages and prices is evident. The working people are the great mass of the population. They are the body of consumers who in fact pay the high commodity prices which are in part occasioned by their exaction of a living wage. If wages go up, living expenses go up; and the wages of transportation workers intimately affecting as they do the cost of all commodities are the most potential of all factors to raise or depress prices. They may in fact be regarded as the keystone of the cost-price structure. Do not the brotherhoods spoil their argument for government ownership by coupling with it a demand for a contingent operatives' profit? Wages must be adjusted at least to the point of restoring purchasing power, but operative profiteers, whenever they show themselves, will be just as objectionable to the farmers, factory workers, city dwellers and voters of the country as are stock exchange and safe deposit (?) profiteers. A government-ownership issue will doubtless be introduced into the next campaign, but it is safe to say it will not prove popular if accompanied by a class-profiteering plan.

The increased expense of operating the railroads, apart from higher material and labor costs is in part the consequence of inefficient functioning and in part the result of a conscious and unconscious sabotage, which permeates the service because no

one's status has been established and the system itself is believed to be temporary. Indeed, we do not now have government operation, but instead a quasi-private, quasi-public operation, one of the recognized objectives of which is to discredit the government and so bring about a return to the old order of things.

As to a division of prospective profits between operators and security owners, to serve as an incentive to efficiency, the answer is that there is small likelihood of profits where there is not responsibility for losses and, if there shall be profits, the operatives will demand them all and probably will get them to the exclusion of the holders of securities and the public. The promise of such profits will also serve as an incentive to conspiracy between owners and operatives and to still further demands for larger profits out of the public.

Since it is admitted that the government will hereafter exercise the essential functions heretofore left to private initiative, since it must undertake compensation to owners for their properties, and pay the highest going wages for their operation, why should it be called upon further to burden itself with profits either for owners or for operatives?

Terminal Integration and Highway Competition

Improved highway transportation and unified terminal operation at interior transfer cities and at seaports, made necessary by the stress of war conditions, has so completely demonstrated the advantages of integrating transportation functions, that it is probable that integration will be extended and will not be reserved. If so, how will it be possible to unscramble the terminals at the great cities? If the terminals are to be used jointly why not the roads?

It has become the general custom to short-haul commodities between points of origin and destination by motor trucks over the public highways. The advantages of this as compared with the former railway service involving three hauls and two additional transfer handlings needs no comment. Railroad revenues have suffered severely as a consequence of this change, and they will continue to suffer.

Private Rail Profits and Public Waterways Incompatible

Improved waterway transportation has not yet been permitted to exercise its full influence upon railway communications since

the Federal Government functioning in its present dual capacity as guardian of the public interest and also as trustee for the security owners, cannot with justice permit unrestricted water competition to take effect.

Under pre-war conditions the railroad policy of the country was deliberately and necessarily planned to prevent the most effective utilization of its vast inland and coastwise water carrying systems. As long as the government shall continue directly or indirectly to administer the roads under guarantees of profit instead of acquiring them, its necessity for maintaining railroad revenues with which to meet its guarantees and also its obligation to return the roads to their owners properly safeguarded, compel it in part to pursue the same policy of discrimination against water and in favor of rail transportation which characterized the relations of the railroads to the waterways for fifty years prior to the war. That policy was one of destructive competition successfully directed to the elimination of water transportation except as a potential influence upon freight rates.

No satisfactory joint use of rail and water carriers in such a manner as to realize the full benefits of both services can be had while the two kinds of transportation shall continue to be antagonistic to each other—one private, the other public—or so long as there shall be an obligation to consider the profit and loss account of one system apart from the whole. A single federal control is necessary to reconcile these rival interests. Such control should be complete over the railroads both as regards ownership and administration, and at the beginning, at least, directive over the water routes.

The great water routes of the country are the Panama and West Coast route with its potential joint railroad utilization; the Atlantic coastal route with its similar rail connections; the Great Lakes route with its double water outlet via New York and Montreal and its utilization for combined rail and water service; the Erie Canal system; the Mississippi and Ohio River system; the Black Warrior system and the Chesapeake and Delaware system, including its possible extension north to Boston and south of Norfolk.

The two ocean systems have been effectively utilized as all-water carrier routes, the Great Lakes system has been eminently so developed, and combined water and rail service on these three routes has been as effective as the railroads would permit. Trans-

portation on the other routes, while indirectly tending to lower railroad freight rates, has not been materially advanced because of the obstructive policy which the rail carriers and the government itself for the time being, have of necessity been compelled to adopt toward the water carriers in the attempt to maintain the profits of private rail ownership. While all-water transportation over these routes has been minimized, it has also been made economically impossible to develop the best system of combined rail and water service by which communities away from the water could obtain the advantages of linking the cheaper but restricted water service with the ubiquitous railroad service. There has never been a fair or satisfactory basis for pro-rating combined water and rail shipments. United States railroad rates are comparatively low near and along the waterways and comparatively high traversely to, and away from, them. If railway, highway, and waterway transportation and terminals shall be modernized and used jointly for the benefit of the whole country in conjunction with a fair basis of pro-rating between rail and water carriers, then railroad transportation cannot be conducted as a segregated business.

In this connection, it is urgently recommended that the report of the Inland Waterways Committee of the Railroad Administration, which has submitted to the Director General in the summer of 1918, be now published and studied in its relation to the railway problem.

Until a national cooperative policy between land and water carriers shall have been established, there can be only one safe policy for waterway development; viz., to consider the great inland waterway routes as arms of the sea, upon which transportation shall be freely competitive and unrestricted as to rates and conditions of service. Public funds for physical improvements of channels, locks and terminals must be continuously demanded and also the most favorable conditions for interchange of service with railroads to cities not accessible directly by water must be insisted upon. Only by the cultivation of an imperative public demand for these factors of success can waterway transportation be safeguarded against the adverse attacks of private railroad interests.

The Government has begun to equip the Mississippi River and the Erie Canal with modern fleets which are already in competition with the railways and can under-bid them for coarse

freights. On both of these inland waterways the Government now controls transportation. What then will be the consequence of divesting itself of the control and operation of the railroads? How can it hope to reconcile a public competitive waterway policy, with a private gainful policy of operating the railroads? The Government fleets will be expanded, private boat owners will claim the advantages accorded the Government boats, and the coast-wise traffic will develop a similar conflict of interests, and the clashing of these interests will be disastrous for all, if the Government shall separate the administration of the waterways from that of the railways.

It will be to the interest of American seaports to establish a short-haul movement from the point of origin to the nearest water route leading to such ports whether it be an inland waterway route or a coastal route. No universal rule can here be applied other than to say that instead of giving preference as heretofore to the long rail haul, wherever economies can be shown, a combined rail and water service to the seaport should be made possible.

For instance, southern cotton, coal, lumber and other coarse freights should more generally be forwarded to the New England mill district via a rail haul to the coast and thence, by water to the New England factories which are for the most part located within motor truck distances from tidewater.

Through its control of the eastbound grain business at Buffalo, the Government is now in control of traffic on the Erie canal, because the east bound grain movement is the dominating factor in canal policy. The United States Railway Administration controls this New York State waterway by this means, just as effectively as it controls the traffic through the Panama canal. The automatic influence which the Erie canal formerly exercised over railroad freight rates is consequently now vested in the United States. The Government has in this matter assumed a heavy responsibility which will be greatly complicated if the railroads even temporarily go back to private operation.

Is it probable that the public opinion of the country will tolerate a discontinuance of highway, waterway, railway and seaport terminal integration in order to conserve the profits of an outgrown, non-competitive private system of rail transportation?

The economic movement of food, fuel, and raw materials to and from our growing municipal centers and the conduct of

our exports to the sea in competition with foreign rivals is opposed to such a policy.

The prospective separation of terminal charges from the line haul in order to conserve badly needed railroad revenues and to stimulate local enterprise in modernizing terminals, is in conflict with such a policy.

The best use of our waterways and their progressive utilization to avoid the otherwise heavy expense of additional railroad construction necessary to meet the expanding needs of the country's commerce, is out of line with such a policy, as is the declared unwillingness of railroad operatives to live and work in peaceful cooperation under private ownership.

"Private Operation" a Myth

The average stockholder is more careless of his vote than is the average citizen. There never has been a stockholders' management in the popular, democratic sense. What we have heretofore had through proxy representation, has been in the first instance control by speculative promoters for development purposes followed later by exploitive bankers' control. What the country now needs and is preparing to get, is technical control exercised through actual management and modified by popular opinion as expressed through Government representation.

Since the departure of the great competitive organizing owners, the roads have been run, are being run, and will continue to be run, by expert operatives, from the track boss up through the engineering and accounting staffs to the President of the road and the Director General; and the sooner this fact shall be recognized by the Government, the public and by security owners, the better for all concerned. The quality now most needed to bring about efficient operation, is *esprit de corps* in an operation staff composed of representatives of the Government, representatives of the official and classified services and representatives of the owners until these latter shall have been expropriated. Such a staff will in time generate efficiency—not indeed equal to that which existed before competition ended, nor as bad as politics alone can otherwise make it.

Efficient service rendered to the public, not for bonuses and tips, as has been proposed, but for just wages and salaries, in a distinguished and honorable public service is what the operatives

and the country require and may ultimately expect from the staff.

Absolute safety founded on a just basis of values is what the security owner most needs—in other words, a Government bond—and if he delays much longer to press for this, in the hope of securing the elusive chance of speculative profits, based on politically delegated control over rate making, he is likely to miss his market.

Director General McAdoo's recommendation that Government control shall be extended over a period of five years—carrying with it the tacit implication of perpetuity—is still the common-sense indication of the way out.

By temporizing, and by camouflaging novel facts at variance with American experience, it soothes susceptibilities, and affords the needed opportunity for gradually bringing about a change in our institutions which otherwise would be regarded as revolutionary.

Within the five-year period a national policy can be worked out, fair to all interests, and which will prevent the otherwise inevitable exploitation of owners, operatives and the public.

The country may not, however, proceed directly or indirectly to nationalize its railway system. As a resultant of the influences at work, this may finally be accomplished through a series of transmigrations camouflaged as quasi-private ownership schemes, such as those now pending in Congress. Organization of this kind will, however, tend to make Government control more complex and burdensome in deference to a public opinion which will resent any Government assurance of private profit. Coincidentally, organized labor will not function harmoniously under any semblance even, of private operation, and rates for service will fluctuate with changing political conditions. The weak points of private and public operation will be accentuated and the advantages minimized by all such attempts at mixed control and divided responsibility. During such an interregnum developing experience will continue to point the way to the one inevitable conclusion—viz., complete Government ownership, operation and responsibility.

(In this article I have not referred to the influence of inflation of Government credit upon railroading. This is a most disturbing factor as it is in every branch of commerce and industry, but its principal consequence is to accentuate and make more exigent conditions which would otherwise have worked out the same results more slowly).

APPENDIX

REPORT OF THE ANNUAL MEETING COMMITTEE

The Committee planned for the Annual Meeting of the Academy (39th Year) a two-day national conference on the subject of *Railroad Legislation*. The conference was held on Friday and Saturday, November 21-22, and consisted of four sessions and a dinner meeting, with the following sub-topics:

1. The Railroads and the Shipper.
2. The Railroads and the Investor.
3. Railroad Legislation (the dinner meeting).
4. The Railroads and Labor.
5. The Railroads and the Public.

The aim of the Committee was to focus attention, as far as possible, upon the two pending Congressional proposals for railroad legislation, namely, the House and the Senate Committee bills, and the problems of railroad legislation connected directly with those two proposals.

With the first edition of the program of the conference there was sent to every member of the Academy and to those invited to attend the conference a copy of a chart prepared by Mr. Richard Waterman for the United States Chamber of Commerce Committee on Railroad Legislation, giving a summary of the seven different plans for railroad legislation which had been submitted to Congress. At the conference itself Mr. Waterman presented a digest, in parallel columns, of the two Congressional Committee proposals. Naturally many aspects of the general problems of railroad legislation not directly involved in the two Congressional proposals came in for their share of discussion by the speakers on the program. This is particularly true of the general discussion of governmental ownership and operation.

Dr. Albert Shaw, Vice-President of the Academy, who had expected to preside at the opening session, was unfortunately prevented from being present, and Professor T. W. Van Metre, of Columbia University, very kindly took his place. Professor Van Metre also gave the sub-committee on program very valuable expert assistance and has kindly consented to edit the volume of Proceedings in which the papers and report of the discussion at this meeting will be published.

Professor Thomas Reed Powell, of Columbia University, presided at the second session. Mr. Thomas W. Lamont, Vice-President of the Academy, presided at the dinner meeting, at the beginning of which Professor Lindsay, President of the Academy, made a brief general statement concerning the program of the conference. Professor Henry R. Seager presided at the third session and Professor E. R. A. Seligman presided at the fourth and closing session.

At the dinner meeting, in addition to the speakers on Railroad Legislation, the following gentlemen were invited to be guests of honor:

The Right Hon. Viscount Edward Grey, British Ambassador to the United States.

Representatives from the delegates to the International Trade Conference:

M. Eugene Schneider, Chairman of the French Economic Mission to the United States and Chairman of the Creusot Steel Works; former member of the Chamber of Deputies.

Sir Arthur Shirley Benn, M.P., Chairman of the British delegation.

Commander Engineer Ferdinando Quartieri, Chairman of the Italian delegation.

M. Florimond Hankar, Chairman of the Belgian delegation.

Commander Giorgio Mylius, President of the Italian Master Cotton Spinners and Weavers Association.

Professor Albert H. Janssen, of the University of Louvain and Director of the National Bank of Belgium.

M. Eugene Loizeau, Engineer, assistant to the Director of the Credit Lyonnais.

Edward A. Filene, Boston, Chairman of the United States Chamber of Commerce Committee to the International Trade Conference.

Representative delegates to the International Labor Conference:

Professor Ernest Mahaim, Belgium.

M. Arthur Fontaine, France.

The Right Hon. G. M. Barnes, M.P., Great Britain.

G. H. Stewart Bunning, Great Britain.

Mgr. Dr. W. H. Nolens, Holland.

Baron Mayor des Planches, Italy.

Professor Adelfor G. Posada, Spain.

Dr. Nicholas Murray Butler, President of Columbia University.

Mr. Jose Fidele Lagos, "La Prensa," Buenos Aires, Argentine Republic.

Professor Graham Wallas, University of London.

Dr. Carl Kelsey, Acting President of the American Academy of Political and Social Science.

Major George Haven Putnam, English-Speaking Union, New York.

Owing to changes in the program for the official entertainment of the Prince of Wales in New York City on the evening of November 22nd, Lord Grey was unable to be present, and for the same reason several of the delegates to the International Trade Conference were prevented from being present, but Commander Mylius, Professor Janssen and M. Loizeau were present to represent their colleagues of the International Trade Conference. No member of the International Labor Conference was able to leave Washington at that time because of the fact that their conference was endeavoring to complete its program in the month of November and required their daily and hourly presence in Washington.

The following greeting of the President of the Academy to the members of both of these conferences was therefore given at the closing session of the annual meeting instead of constituting a part of the program of the dinner meeting, as originally planned by the Committee.

Dr. Lindsay, in closing the final session of the annual meeting and the national conference on Railroad Legislation, after thanking the speakers and those who had participated in the discussion throughout both days, said:

It was the intention of the Academy at the dinner meeting last night to depart from the program on Railroad Legislation for the brief space of half an hour to greet and hear from the foreign delegates to the International Trade Conference and the International Labor Conference. Unfortunately the time did not permit and the arrangements did not quite permit us to carry out that part of the program. We wanted to give expression at this annual meeting to what is doubtless in the minds of every member of the Academy, of our interest in these new beginnings in international co-operation that are so significant and so full of promise for the future development of our industries and for the future development of our economic life as reflected in this railroad problem that we are discussing. There are two important international conferences recently assembled in this country: the International Trade Conference, and the International Labor Conference which is still sitting in Washington. Unfortunately for us the latter organization is so burdened with its labors which it wishes to bring to a happy conclusion this month that

they are sitting long hours and its members are unable to leave Washington for even one evening's diversion in New York. We invited some half dozen of them—representative members of that conference—to be guests of honor at our conference. They all expressed the keenest interest in our meeting and sent very warm greetings, but unfortunately no single member of the conference could get here for the meeting last night.

The International Trade Conference has been in session at Atlantic City. It has adjourned and its members, about sixty in number, representing economic missions from France, Italy, Great Britain, Belgium and other countries, have been touring the country and have just returned to New York. They arrived here at a very late hour Thursday night. They were almost overwhelmed by the hospitality that the Merchants Association had planned for them during the two or three days they are to be here in New York. It was very difficult for any of them to attend this conference. Three of their delegates, however, were present last night and I think we owe them an apology for the fact that the hour was so late when the railroad discussion was finished that there was no opportunity to express this greeting then or to hear from them. One of the leading members of that conference is the Chairman of the French delegation, Mr. Schneider, the head of the Creusot Steel Works, a very broad-minded, statesman-like business man. He was very eager to be at our meeting last night and wanted to say a few words to our conference concerning their mission to the United States. He sent as his representative Mr. Eugene Loizeau, the assistant to Baron De Morais, the Director of the Credit Lyonnais. He was at the dinner last night and was prepared to have said a few words on the mission of the International Trade Conference to this country, had there been time. There was also with him Professor Janssen of the University of Louvain and Commander Mylius of the Italian delegation. There were also present Mr. Filene of the United States Chamber of Commerce and Mr. Farquhar, who were active in arranging for that conference. I do not think we ought to let this annual meeting adjourn without saying a word of greeting to both of those conferences and to express to them the thought that undoubtedly represents the very large majority of opinion of such gatherings as this—that the United States means to do its part in the international affairs of the world, and although there are political complications which our foreign friends may have great difficulty in understanding—I refer first to our friends who are here and also to the far greater number who have never been here and who will be still less able to understand—why we hesitate, why we have thrown away this opportunity, why we seem to fail to grasp the greatest opportunity that has come to any nation in the world. America is not going to lose that opportunity entirely. We were very slow rising to the occasion and doing our part in the great conflict. Many of us were very impatient at the slowness of the government leadership and the slowness of public opinion generally throughout the country in rising to our duty and our opportunity in that matter, but we did finally assert ourselves in that

conflict in a way that has given America cause for just pride. I believe that in this new era of international organization of public affairs we will find a way—just how it is going to be found I do not know—but I believe that we will find a way of coming in, even at the eleventh hour, and doing our part. I think we can assure our friends of these two great conferences, the beginnings of what will undoubtedly be a series of world conferences (many of which I hope will find it to their interest and pleasure to meet in this country), that we will find a way of taking our proper part and lending help and counsel and reaping the benefits of joint counsels in a better and more orderly arrangement of world affairs and in the guarantees of permanent peace.

In addition to the papers and addresses printed in the volume of Proceedings and the more or less extensive remarks of some of those who took part in the informal discussion and who have been good enough to expand their remarks into brief papers, which are also published in this volume, the following persons took part in the informal discussion: At the first session on Railroads and the Shipper, Mr. M. H. Winkler, of Winkler and Rogers, New York City; at the second session on Railroads and the Investor, Mr. S. E. Heberling, of the Switchmen's Union of North America, Buffalo, New York; Mr. George Scoville Hamlin and Mrs. L. C. Zicarelli, of New York City. At the dinner meeting, Mr. Thomas W. Lamont, of J. P. Morgan and Co., presided, and in his introductory remarks referred forcibly to the very great importance of the railroads and the proper solution of the railroad problem as the basic factor in the economic life and prosperity of the United States. At the fourth session Hon. Herbert C. Pell, Jr., Congressman from the 17th New York District, spoke extemporaneously on the objections to government ownership and operation of railroads and the desirability in any solution of the railroad problem under government regulation of giving the railroads a fair chance to make all the profit consistent with the highest standards of public service which the government ought to supervise and enforce. Mr. Pell also pointed out how the members of the conference and educated public opinion generally could apply the information gained in a conference of this character and exert real political influence on Congress in shaping the railroad policy of the government. Mr. Frederick J. Lisman, of New York City, and Mr. Arthur B. Farquhar, of York, Pa., took part in the informal discussion of this closing session of the conference.

The arrangements for the Conference were greatly facilitated

by the work of the members of the Annual Meeting Committee who served on special sub-committees to look after various details of the plans for the Conference. The Committee wishes to acknowledge with special thanks the very valuable services which Mr. James T. Grady, chief of the Bureau of Publicity of Columbia University, rendered the Academy and the conference as chairman of the Press and Publicity Committee. The efficient services of Messrs. H. Feldman, C. B. Austin and LeRoy E. Bowman on the committee of ushers deserve special mention and grateful thanks.

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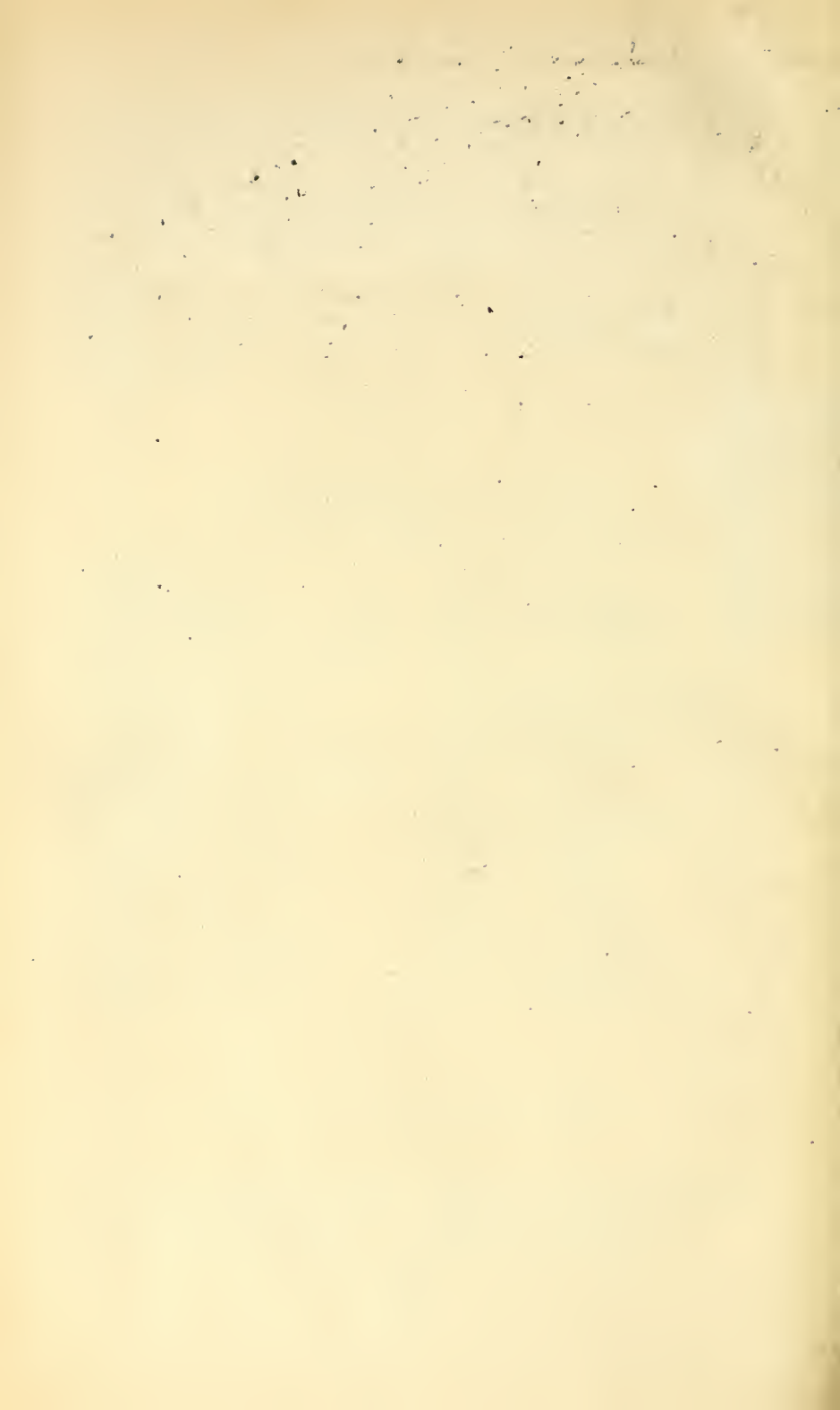
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